



# **STATUTORY REPORT ON CORPORATE GOVERNANCE 2018**

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

In compliance with s. 107b of the Danish Financial Statements Act, Cemat's statutory report on corporate governance forms part of the management's review included in the 2018 annual report and covers the reporting period 1 January – 31 December 2018. It is published as a single, full report pursuant to s. 107b (1) of the Act.

The report consists of three elements:

- a corporate governance report
- a description of Cemat's management bodies
- an account of the main features of the Group's internal controls and risk management in connection with the financial reporting process

## **CORPORATE GOVERNANCE**

Pursuant to s. 107b of the Financial Statements Act and rule 4.3 of the "Rules for issuers of shares" issued by Nasdaq Copenhagen, listed companies are required to report on how they address the most recent recommendations issued by the Committee on Corporate Governance of 23 November 2017. The recommendations are available on the website of the Committee on Corporate Governance, [www.corporate.governance.dk](http://www.corporate.governance.dk) [www.corporategovernance.dk](http://www.corporategovernance.dk).

In their report on corporate governance, companies must apply the "comply or explain" principle in relation to each individual recommendation; 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 Cemat complies with the majority of the recommendations. Cemat complies with 37 out of 47 corporate governance recommendations. The Company complies in part with two recommendations and does not comply with the remaining eight recommendations.

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<b>1. COMMUNICATION AND INTERACTION BY THE COMPANY WITH ITS INVESTORS AND OTHER STAKEHOLDERS</b>				
<b>1.1. Dialogue between company, shareholders and other stakeholders:</b>				
1.1.1 The committee <b>recommends</b> that the board of directors ensure ongoing dialogue between the company and its shareholders, so that the shareholders gain relevant insight into the company and in order for the board of directors to be aware of the shareholders' views, interests and opinions in relation to the company.	Cemat complies			<p>Cemat communicates with its shareholders through the release of annual and interim financial reports and announcements. Announcements and press releases are posted on <a href="http://www.cemat.dk">www.cemat.dk</a> immediately after publication on Nasdaq Copenhagen.</p> <p>Shareholders may subscribe to mailing lists for annual reports, announcements and general meetings on the Company's website. Shareholders may also find information on Cemat's strategy, policies and views under the menu "About" on Cemat's website. Contact information for Cemat's Investor Relations function is found under "Contacts/Investor Relations"</p> <p>Cemat's shareholders may present their views and opinions at the annual general meeting and may at any time contact Cemat by telephone or <a href="mailto:investor@cemat.dk">investor@cemat.dk</a></p>
1.1.2 The committee <b>recommends</b> that the board of directors adopt policies on the company's relationship with its stakeholders, including shareholders and that the board ensure that the interests of the stakeholders are respected in accordance with company policies.	Cemat complies			The Company's investor relations are described separately in Cemat's information and communication policy, which is available on the Company's website under "Investors/Investor policies".
1.1.3 The committee <b>recommends</b> that the company publish quarterly reports.			Cemat does not comply	Cemat has decided only to prepare half-year and annual reports. The decision is based on a desire to lower the company's costs and is taken in the light of the fact that following the sale of the silicon business, the company does not experience significant fluctuations in budgets and published financial estimates.
<b>1.2. General meeting</b>				

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
1.2.1 The committee <b>recommends</b> that in organising the company's general meeting, the board of directors plans the meeting to support active ownership.	Cemat complies			<p>Notices convening shareholders to annual general meetings, including agenda, relevant documents and forms for requesting admission cards and nominating proxies, are forwarded by e-mail to the shareholders who have subscribed to the mailing list at the same time as being published at Nasdaq Copenhagen, the Company's website and through announcement in the reporting system of the Danish Business Authority.</p> <p>In consideration of the remaining shareholders, general meetings are announced in the Danish daily newspaper Berlingske Tidende. Relevant documents and forms are available on the Company's website under "Investors/General meetings".</p> <p>Shareholders may request admission cards, nominate proxies and vote by correspondence via Cemat's shareholder portal under "Investors/Shareholder portal" or by sending the forms to Cemat's registrar, Computershare A/S.</p> <p>General meetings have been conducted by physical attendance at Cemat's offices or at its lawyer's offices at the discretion of the Board of Directors.</p>
1.2.2 The committee <b>recommends</b> that proxies granted or votes by post for the general meeting allow shareholders to consider each individual item on the agenda.	Cemat complies			The forms for nominating proxies and voting by correspondence allow shareholders to consider each individual item on the agenda.
<b>1.3. Takeover bids</b>				
1.3.1 The committee <b>recommends</b> 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. The contingency pro-	Cemat complies			Cemat 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	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
cedures should establish that 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.				
<b>2. TASKS AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS</b>				
<b>2.1. Overall tasks and responsibilities</b>				
2.1.1 The committee <b>recommends</b> that at least once annually the board of directors consider the matters that should be included in the board's performance of its work.	Cemat complies			<p>At the first meeting of the Board of Directors following the annual general meeting, the Board of Directors prepares an annual plan ensuring appropriate and adequate consideration of both recurring and new strategic matters.</p> <p>The overall tasks and responsibilities of the Board of Directors are described in the rules of procedure, which are reviewed in case of legislative changes in order to ensure that they are adequate and reflect the needs of the Company.</p> <p>The rules of procedure for the Board of Directors are available to the Board of Directors and the Management Board.</p>
2.1.2 The committee <b>recommends</b> that at least once annually, the board of directors consider the overall strategy of the company with a view to ensuring value creation in the company.	Cemat complies			Cemat's Board of Directors and Management Board hold a strategy seminar once a year to review the Group's overall strategy.
2.1.3 The Committee <b>recommends</b> that the board of directors ensure that the company has a capital and share structure which supports 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	Cemat complies			<p>The Board of Directors assesses regularly, and specifically as part of its strategy process, whether Cemat'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.</p> <p>Reference is made to the section "Shareholders" in the Company's annual report for a description of Cemat's capital structure and an</p>

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
directors explain this in the management commentary and/or on the company's website.				overview of the Board of Directors' authorisations for capital increases.
2.1.4 The committee <b>recommends</b> that the board of directors annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board's reporting to the board of directors.	Cemat complies			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 instructions to the Management Board are available to the Board of Directors and the Management Board.
2.1.5 The committee <b>recommends</b> that at least once annually, the board of directors discuss the composition, developments, risks and succession plans of the executive board.	Cemat complies			The Board of Directors discusses the Management Board in continuation of the Board of Directors' self-evaluation.
<b>2.2. Corporate social responsibility</b>				
2.2.1 The Committee <b>recommends</b> that the board of directors adopt policies on corporate social responsibility.	Cemat complies			Cemat has defined policies consisting of principles for the Group's corporate social responsibility, which are available on Cemat's website under "About/Corporate Social Responsibility".
<b>2.3. Chairman and vice-chairman of the board of directors</b>				
2.3.1 The committee <b>recommends</b> appointing a vice-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 sparring partner for the chairman.	Cemat complies			<p>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 in accordance with the rules of procedure for the Board of Directors. The Chairman involves the Deputy Chairman in all significant issues and decision-making processes.</p> <p>The tasks of the Chairman and Deputy Chairman are laid down in the rules of procedure for the Board of Directors.</p>

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<p>2.3.2 The committee <b>recommends</b> that, if the board of directors, in exceptional cases, asks the chairman of the board of directors or other board members to perform special activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect should be passed to ensure that the board of directors maintains its independent, general management and control function. Resolutions on the chairman's or other board members' participation in day-to-day management and the expected duration hereof should be publicly announced.</p>	Cemat complies			<p>The Chairman does not participate in the day-to-day management of Cemat.</p> <p>In 2018, the Chairman and the Deputy Chairman performed special tasks in connection with Cemat's efforts to divest its Polish subsidiary CeMat '70 S.A. This was based on a prior authorisation from the entire Board of Directors.</p>
<b>3. COMPOSITION AND ORGANISATION OF THE BOARD OF DIRECTORS</b>				
<b>3.1. Composition</b>				
<p>3.1.1 The committee <b>recommends</b> that the board of directors annually evaluate and in the management commentary, account for</p> <ul style="list-style-type: none"> <li>• the competencies that it must have to best perform its tasks,</li> <li>• the composition of the board of directors, and</li> <li>• the special competencies of each member.</li> </ul>	Cemat complies			<p>On its website, under "About/Management", 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.</p> <p>Cemat's Board of Directors is composed of members who represent general management experience, have industry insight and possess professional skills pertaining to listed companies' financial and economic matters.</p> <p>The Board members' profiles containing information about experience, seniority and special skills are published in the annual report in the section "Board of Directors and Management Board" and under "About/Management/Board of Directors" on the Company's website and in the agenda for the annual general meeting.</p>

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<p>3.1.2 The committee <b>recommends</b> that the board of directors annually discuss the company's activities to ensure relevant diversity at management levels and prepare and adopt a policy on diversity. The policy should be published on the company's website.</p>	Cemat complies			<p>In March 2013, Cemat's Board of Directors adopted a target for diversity at the Company's management levels. Information about this target is found on the Company's website under "About/Management".</p>
<p>3.1.3 The committee <b>recommends</b> that the selection and nomination of candidates for the board of directors be carried out through a careful and transparent process approved by the board of directors. When assessing its composition and nominating new candidates, the board of directors should in addition to the need for competencies and qualifications take into consideration the need for integration of new talent and diversity.</p>	Cemat complies			<p>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, a profile will be prepared to be presented to the entire Board of Directors for approval. The Chairman subsequently nominates suitable candidates, most often with the assistance of external advisers.</p> <p>In assessing the composition of, and the selection of new candidates for Cemat's Board of Directors, priority is given to specific professional competencies.</p>
<p>3.1.4 The committee <b>recommends</b> that the notice convening a general meeting where the agenda includes the election of members to the board of directors, include (in addition to the statutory requirements) a description of the qualifications of the nominated candidates, including information about the candidates'</p> <ul style="list-style-type: none"> <li>• other executive functions, including positions on executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign enterprises, and</li> <li>• demanding organisational tasks</li> </ul> <p>Furthermore, it should be indicated if the candidates to the Board of Directors are considered independent.</p>	Cemat complies			<p>The nominated candidates' directorships and managerial positions in other Danish and international companies and other demanding organisational tasks are described in the agenda for the annual general meeting.</p> <p>Information on the Board of Directors' independence is disclosed on the Company's website under "About/Management" and in the agenda for the annual general meeting.</p>

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
3.1.5 The committee <b>recommends</b> that members of the company's executive board be not members of the board of directors and that a resigning chief executive officer be not directly elected as chairman or vice chairman for the same company.	Cemat complies			The Company's executive board are not member of the board of directors.
3.1.6 The committee <b>recommends</b> that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.	Cemat complies			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 Cemat's Articles of Association.
<b>3.2. Independence of the board of directors</b>				
<p>3.2.1 The committee <b>recommends</b> 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.</p> <p>To be considered independent, this person may not:</p> <ul style="list-style-type: none"> <li>• be or within the past five years have been a member of the executive board or senior staff member in the company, a subsidiary or an associated company,</li> <li>• within the last five years, have received significant remuneration from the company/group, a subsidiary or an associated company in different capacity than as member of the board of directors,</li> <li>• represent or be associated with a controlling shareholder,</li> <li>• within the past year, have had significant business relations (e.g. personal or indirectly as partner or employee,</li> </ul>	Cemat complies			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 recommendation. Details about this are found on the Company's website under "About/Management".

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<p>shareholder, customer, supplier or member of management in companies with corresponding connection) with the company, a subsidiary or an associated company,</p> <ul style="list-style-type: none"> <li>• be or within the past three years have been employed or been a partner in the same company as the auditor elected by the general meeting,</li> <li>• be part of the executive management in a company with cross-management representation in the company,</li> <li>• have been member of the board of directors for more than 12 years, or</li> <li>• be a close relative of persons who are not considered independent.</li> </ul> <p>Even if a member of the board of directors is not covered by the above criteria, certain conditions may exist that will lead the board of directors to decide that one or more members cannot be regarded as independent.</p>				
<b>3.3. Members of the board of directors and the number of other executive functions</b>				
<p>3.3.1 The committee <b>recommends</b> that each member of the board of directors assess the expected time commitment for each function so that the member does not take on more functions than he/she can complete at a satisfactorily level for the company.</p>	Cemat complies			<p>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 Cemat.</p> <p>Cemat believes that the current Board members' directorships and managerial positions in other companies are compatible with the Company's interests and corporate governance.</p>
<p>3.3.2 The committee <b>recommends</b> that the management commentary, in addition to the provisions laid down by legislation, includes the</p>	Cemat complies			<p>The recommended information concerning the Board members is found in Cemat's annual report in the section "Board of Directors and Management Board" and on its website under "About/Management".</p>

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<p>following information about the members of the board of directors:</p> <ul style="list-style-type: none"> <li>• the position of the relevant person,</li> <li>• the age and gender of the person in question,</li> <li>• the person's competencies and qualifications that are relevant to the company,</li> <li>• whether the member is considered independent,</li> <li>• the member's date of appointment to the board of directors,</li> <li>• expiry of the current election period,</li> <li>• the member's participation in the meetings of the board of directors and committee meetings,</li> <li>• other management functions, including memberships in executive boards, boards of directors, and supervisory boards, including board committees in Danish and foreign enterprises and demanding organisational tasks, and</li> <li>• the number of shares, options, warrants and similar owned by the member in the company, and other group companies, as well as changes to the member's portfolio of the mentioned securities which have occurred during the financial year.</li> </ul>				<p>No options or warrants are granted to Cemat's Board members.</p>
<p>3.3.3 The Committee recommends that the annual evaluation procedure, cf. section 3.5, include an evaluation of what is regarded as a reasonable level for the number of other management functions, where the number, level and</p>			<p>Cemat does not comply</p>	<p>As set out below in section 3.5 the Company's Board of Directors consists of only three persons. Due to the limited activity of the Company, the Company has chosen not to establish an evaluation procedure. The Chairman of the Board of Directors does however conducts regular evaluation of the members.</p>

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
complexity of the other individual management functions are taken into account.				
<b>3.4. Board committees</b>				
<p>3.4.1 The committee <b>recommends</b> that the company publish the following on the company's website:</p> <ul style="list-style-type: none"> <li>the terms of reference of the board committees,</li> <li>the most important activities of the committees during the year and the number of meetings held by each committee, and</li> <li>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.</li> </ul>		Cemat complies in part		<p>The Company has - apart from the audit committee constituted by the joint board – not any other board committees, thus terms of reference for committees are not disclosed and nor is the Company reporting on the committees activities and members.</p> <p>The need for setting up committees is assessed on a current basis.</p> <p>After the divestment of the silicon business on 1 July 2016, the Company's actual operation is limited to the development of the Polish property company. At the same time, the Company's Board of Directors consists of only three persons. The company therefore assess that it is not advisable to set up a management committee or a separate audit committee.</p> <p>Therefore, due to the limited activity of the company, it has been decided not to report separately to the Audit Committee's commission, the activity and the members.</p> <p>it was decided that the audit committee was to be made up of the entire Board of Directors. The Board does not report separately on the activities of the committee. There are no further committees.</p>
3.4.2 The committee <b>recommends</b> that a majority of the members of a board committee be independent.	Cemat complies			All members of the committees are independent.
3.4.3 The committee <b>recommends</b> that the members of the board of directors set up among its members an <u>audit committee</u> and that a chairman is appointed who is not the chairman of the board of directors.			Cemat does not comply	<p>See 3.4.1.</p> <p>The audit committee is made up of the entire Board of Directors. This decision is due to the fact that the Company's Board of Directors consists only of three persons.</p>

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<p>3.4.4 The committee <b>recommends</b> that, prior to the approval of the annual report and other financial reports, the audit committee monitor and report to the board of directors about:</p> <ul style="list-style-type: none"> <li>• significant accounting policies,</li> <li>• significant accounting estimates,</li> <li>• related party transactions, and</li> <li>• uncertainties and risks, including in relation to the outlook for the current year.</li> </ul>			Cemat does not comply	<p>Before the divestment of the silicon business, the audit committee functioned normally. After the divestment, the functions of the audit committee were taken over by the entire Board of Directors. An audit plan for the coming year is on a yearly basis prepared by the Board of Directors together with the external auditors.</p> <p>The decision not to have an actual audit committee is based on the limited activity of the Company, cf. point 3.4.3. As the Company's audit committee thus consists of the entire board of directors, there is also no separate reporting from the audit committee to the Board of Directors.</p>
<p>3.4.5 The Committee <b>recommends</b> that the audit committee:</p> <ul style="list-style-type: none"> <li>• annually assesses the need for an internal audit, and in such case, presents mandates and recommendations on selecting, appointing and removing the head of any internal audit function and on the budget of the internal audit function,</li> <li>• ensure that if an internal audit has been established, a description of its functions is approved by the board of directors,</li> <li>• ensure that if an internal audit has been established, adequate resources and competencies are allocated to carry out the work, and</li> <li>• monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>	Cemat Complies			It is assessed that there is no need for an internal audit in the 2018 financial year.

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<p>3.4.6 The committee <b>recommends</b> that the board of directors establish a <u>nomination committee</u>, which is at least, responsible for following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• describing the qualifications required by the board of directors and the executive board and for a given position, indicating the time expected to be spent carrying a specific position, as well as assessing the competencies, knowledge and experience found in the two governing bodies,</li> <li>• annually assessing the structure, size, composition and results of the board of directors and the executive board and recommend any changes to the board of directors,</li> <li>• annually assessing the competencies, knowledge, experience and succession of the individual members of management, and report to the board of directors in this respect,</li> <li>• recommending candidates for the board of directors and the executive board, and</li> <li>• proposing an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes.</li> </ul>			Cemat does not comply	<p>It is assessed that the structure, size, composition and competencies of the Board of Directors are adequate considering the needs of the Company.</p> <p>The Management Board has been changed since the divestment of the silicon business and now consists solely of a CEO.</p> <p>The Board of Directors continuously assesses whether there is a need for new or additional competencies in the Board of Directors or Executive Management.</p> <p>However, due to its limited activity, the company has chosen not to set up a nomination committee to handle this process.</p>
<p>3.4.7 The committee <b>recommends</b> that the board of directors establish a <u>remuneration committee</u>, which is at least, responsible for the following preparatory tasks:</p>			Cemat does not comply	<p>The CEO's remuneration does not comprise a warrant programme.</p> <p>CEO has a remuneration policy, which is described in 4 below.</p>

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<ul style="list-style-type: none"> <li>recommending 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,</li> <li>making proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensuring 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 on the total remuneration that members of the board of directors and the executive board receive from other companies in the group,</li> <li>recommending a remuneration policy applicable for the company in general, and</li> <li>assisting with the preparation of the annual remuneration report.</li> </ul>				
3.4.8 The committee <b>recommends</b> that the remuneration committee do not consult with the same external advisers as the executive board of the company.	Cemat complies			If advisory services are required, advisers who are not used by the Management Board must be engaged.
<b>3.5. Evaluation of the performance of the board of directors and the executive board</b>				

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<p>3.5.1 The committee <b>recommends</b> that the board of directors establishes an evaluation procedure for an annual evaluation of the board of directors and the individual members. External assistance should be obtained at least every third year. The evaluation should inter alia include:</p> <ul style="list-style-type: none"> <li>• contribution and results,</li> <li>• cooperation with the executive board,</li> <li>• the chairman's leadership of the board of directors,</li> <li>• the composition of the board of directors (including competencies, diversity and the number of members),</li> <li>• the work in the committees and the committee structure, and</li> <li>• the organisation and quality of the material that is submitted to the board of directors.</li> </ul> <p>The evaluation procedure and the general conclusions should be described in the management commentary and on the company's website. The chairman should account for the evaluation of the board of directors, including the process and general conclusions, on the general meeting prior to the election of the board of directors.</p>			Cemat does not comply	<p>Following the sale of the silicon business, the Company's Board of Directors consists of only three persons. Due to the limited activity of the Company, the Company has chosen not to establish an evaluation procedure.</p> <p>The Chairman of the Board of Directors does however conducts regular evaluation of the members.</p>
<p>3.5.2 The committee <b>recommends</b> that at least once annually the board of directors evaluate the work and performance of the executive board in accordance with pre-defined criteria. Furthermore, the board of directors should evaluate the need for changes to the structure and</p>	Cemat complies			<p>The Board of Directors regularly evaluates the work and performance of the CEO and reports feedback to the CEO at least once every year in connection with the annual salary interview.</p>

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
composition of the executive board, in light of the company's strategy.				
3.5.3 The committee <b>recommends</b> that the executive board and the board of directors establish a procedure according to which their cooperation is evaluated annually through a formalised 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.	Cemat complies			The cooperation between the Board of Direction (represented by the Chairman) and the Management Board is evaluated annually through an open dialogue in connection with the annual salary interview.
<b>4. Remuneration of management</b>				
<b>4.1. Form and content of the remuneration policy</b>				
<p>4.1.1 The committee <b>recommends</b> that the board of directors prepare a remuneration policy for the board of directors and the executive board, which includes</p> <ul style="list-style-type: none"> <li>• a detailed description of the components of the remuneration for members of the board of directors and the executive board,</li> <li>• the reasons for choosing the individual components of the remuneration,</li> <li>• a description of the criteria that form the basis for the balance between the individual components of the remuneration, and</li> <li>• an explanation for the correlation between the remuneration policy and the company's long-term value creation and relevant related goals.</li> </ul>	Cemat complies			<p>Cemat prepared a remuneration policy in 2010 for its Board of Directors and Management Board, which is available on its website under "About/Management/Remuneration Policy".</p> <p>The remuneration policy contains a description of the remuneration components.</p> <p>The remuneration policy contains reasons for choosing the components and a description of the criteria forming the basis of the choices.</p> <p>The remuneration policy will be updated in connection with the presentation of the annual report for 2018.</p>

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
The remuneration policy should be approved by the general meeting at least every fourth year and upon any material amendments and published on the company's website.				
<p>4.1.2 The Committee <b>recommends</b> that, if the remuneration policy includes variable components,</p> <ul style="list-style-type: none"> <li>• limits be set on the variable components of the total remuneration package,</li> <li>• a reasonable and balanced composition be ensured between remuneration for members of management and the value creation for shareholders in the short and long term,</li> <li>• clarity be established about performance criteria and measurability for award of variable components, and</li> <li>• it is ensured that variable remuneration not only consists of short term remuneration components, and that long-term remuneration components must have a vesting or maturity period of at least three years, and</li> <li>• it be ensured that the company has the ability to reclaim, in full or in part, variable components of remuneration that were paid on the basis of information, which subsequently are found to be incorrect.</li> </ul>	Cemat complies			Cemat's remuneration policy includes a variable component applicable to the CEO.
4.1.3 The committee <b>recommends</b> that remuneration of members of the board of directors does not include share options or warrants.	Cemat complies			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

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
4.1.4 The committee <b>recommends</b> that if, in relation to long-term incentive programmes, a share-based remuneration is used, the programmes should have a vesting or maturity period of at least three years after being allocated and should be roll-over programmes, i.e. the options should be granted periodically.	Cemat complies			Cemat does not provide share-based remuneration.
4.1.5 The committee <b>recommends</b> that the total value of remuneration relating to the notice period, including severance pay, do not exceed two years of remuneration, including all components of the remuneration.	Cemat complies			<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>The Management Board that resigned after the divestment of the silicon business received separate termination compensation in the form of extended notice of termination.</p>
<b>4.2. Disclosure of the remuneration policy</b>				
4.2.1 The Committee <b>recommends</b> 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.	Cemat complies			Accounts of the severance plan for the retired Management Board have been given at general meetings during the year.
4.2.2 The committee <b>recommends</b> that shareholders at the general meeting consider proposals for approval of remuneration for the board of directors for the current financial year.	Cemat complies			According to Cemat's Articles of Association, remuneration to the Board of Directors for the current financial year must be approved by the shareholders.
4.2.3 The committee <b>recommends</b> that the company prepares a remuneration report that includes information on the total remuneration received by each member of the board of directors and the executive board from the company		Cemat complies in part		In compliance with IFRS, the remuneration paid to the Chairman, Deputy Chairman and other members of the Board of Directors is disclosed in note 4 to the annual report and in the description of Cemat's Management.

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<p>and other companies in the group and associated companies for the last three years, including information on the most important content of retention and resignation arrangements and that the correlation between the remuneration and company strategy and relevant related goals be explained.</p> <p>The remuneration report should be published on the company's website.</p>				<p>Remuneration paid to the Management Board is disclosed in the same manner. Because 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>
<b>5. FINANCIAL REPORTING, RISK MANAGEMENT AND AUDITS</b>				
<b>5.1. Identification of risks and transparency about other relevant information</b>				
<p>5.1.1 The committee <b>recommends</b> that the board of directors consider and in the management commentary 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.</p>	Cemat complies			<p>Risks relating to the financial reporting process form part of the Audit Committee's annual plan and are reported to the Board of Directors in connection with the consideration of financial reports.</p> <p>Management has also prepared a description of strategic and business risks, which is reviewed on an ongoing 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 under "Risks and Risk Management".</p> <p>Cemat's risk management is furthermore described on the last page of this report.</p>
<b>5.2. Whistleblower scheme</b>				
<p>5.2.1 The committee <b>recommends</b> that the board of directors establish a whistleblower scheme for expedient and confidential notification of serious wrongdoing or suspicions thereof.</p>			Cemat does not comply	<p>As the parent company has no permanent employees apart from the CEO, the company has not established a whistleblower scheme.</p>
<b>5.3. Contact to auditor</b>				

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<p>5.3.1 The committee <b>recommends</b> that the board of directors ensure regular dialogue and exchange of information between the auditor elected by the general meeting and the board of directors, including that the board of directors and the audit committee meet with the auditor elected by the general meeting at least once annually without the executive board present. This also applies to the internal auditor, if any.</p>	<p>Cemat complies</p>			<p>The auditors participate in the Board meeting at which the financial statements are considered and approved and if the Board of Directors or the auditors request that the auditors be present.</p> <p>The auditors also participate in a meeting with the Board of Directors at which the annual plan is considered and approved.</p> <p>Cemat has not established an internal audit function.</p>
<p>5.3.2 The committee <b>recommends</b> that the audit agreement and auditors fee be agreed by the board of directors and the auditor elected by the general meeting based on a recommendation from the audit committee.</p>	<p>Cemat complies</p>			<p>This forms part of the annual plan for the Audit Committee.</p> <p>Board of Directors negotiates an audit agreement once a year.</p>

## **CEMAT'S MANAGEMENT**

Cemat'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 supervision of 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 three members elected by the shareholders in general meeting. An overview of the Board of Directors and the Management Board can be found in the annual report in the section "Board of Directors and Management Board".

In accordance with 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 19 March 2019 and the members are eligible for re-election. According to the Articles of Association, the retirement age for Board members is 70 years.

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.

Two of the three four Board members elected by the shareholders are independent of special interests. The Deputy Chairman of Cemat's Board of Directors is not independent as Eivind Dam Jensen controls 31.2% of Cemat's share capital.

When composing the Board of Directors, it has been considered important that the members have general management experience, 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 plan which is determined at the first meeting of the Board of Directors after the annual general meeting. The Board of Directors otherwise convenes as and when deemed necessary. Eight board meetings were held in 2018.

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 cash position, as well as other important issues.

## **Evaluation of the Board of Directors and Management Board**

The evaluation of the working methods, skills, composition, efforts, interaction and performance of the Board of Directors and the Management Board forms part of the ongoing work of the Board of Directors and, in particular, the Chairman.

## **Board committees**

Since mid-2016, Cemmat has not had any separate committees as their duties have been assumed by the entire Board of Directors.

## **Audit Committee**

The Audit Committee monitors the Group's financial reporting, accounting policies, internal control procedures and the framework for the external auditors.

## **Remuneration policy**

A revised remuneration policy will be proposed at the first coming annual general meeting. 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**

Cemmat's Management Board comprises a single registered Chief Executive Officer. 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 2018, for the financial year 2018, the members of the Board of Directors of Cemmat received a fixed basic fee of DKK 140,000. The Chairman received 2.5 times the basic fee and the Deputy Chairman 1.75 times the basic fee for their extended Board tasks. The members of the Committee do not receive separate remuneration for board work in subsidiaries or on the Nomination or Remuneration Committees.

Total fees to the Board are specified in note 4 to the annual report.

The members of the Board of Directors receive no options, bonus or any other performance-related remuneration and are not covered by Cemmat'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.

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

### **Material agreements with Management**

The member of the Management Board is employed under an executive service contract. The executive service contract for the CEO is terminable by either party at three months' notice.

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

The Board of Directors of Cemmat 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 Cemmat**

In connection with the current follow-up on the Group's strategy and development, Management assesses the risks identified and addresses 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 Cemat, reference is made to "Risks and risk management" and note 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.

The Group operates with a low risk profile to ensure that 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. 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**

Cemat's CEO is responsible for maintaining efficient internal controls.

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.

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, reconciliation, 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, 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 on a current basis, 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

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 may rely on the reports/processes which are primarily prepared and performed by the finance department.