



# **STATUTORY REPORT ON CORPORATE GOVERNANCE 2018**

# STATUTORY REPORT ON CORPORATE GOVERNANCE 2017

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 2017 annual report and covers the reporting period 1 January – 31 December 2017. 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 6 May 2013, updated in November 2014<sup>1</sup>. 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 38 out of 47 corporate governance recommendations. The Company complies in part with three recommendations and does not comply with the remaining six recommendations.

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<sup>1</sup> The recommendations on Corporate Governance of 23 November 2017 take effect relating to financial years beginning 1 January 2018 or later and applies to general meetings adopting annual reports of 2018 or later.

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 in order for the shareholders to gain relevant insight into the company's potential and policies, and in order for the board of directors to be aware of the shareholders' views, interests and opinions on the company.	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 other investors, and that the board ensures that the interests of the shareholders 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.

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<b>1.2. General meeting</b>				
1.2.1 The committee <b>recommends</b> that, when 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 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	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:
takeover bid will be made. According to such contingency procedures, the board of directors should not without the acceptance of the general meeting, attempt to counter the takeover bid by making decisions which in reality prevent the shareholders from deciding on the takeover bid themselves.				
<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 a year the board of directors take a position on the matters related to the board's performance of its responsibilities.	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 a year the board of directors take a position on the overall strategy of the company with a view to ensuring value creation in the company.	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 ensuring that the strategy and long-term value creation of the company are in the best interest of the share-	Cemat complies			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.

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
holders and the company, and that the board of directors presents this in the management commentary on the company's annual report and/or on the company's website.				Reference is made to the section "Shareholders" in the Company's annual report for a description of Cemat's capital structure and an 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 on timely, accurate and adequate 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 a year the board of directors discuss the composition of the executive board, as well as developments, risks and succession plans.	Cemat complies			The Board of Directors discusses the Management Board in continuation of the Board of Directors' self-evaluation.
2.1.6 The committee <b>recommends</b> that once a year the board of directors discuss the company's activities to ensure relevant diversity at management levels, including setting specific goals and accounting for its objectives and progress made in achieving the objectives in the management commentary on the company's annual report and/or on the website of the company.	Cemat complies			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".
<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".

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<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>
2.3.2 The committee <b>recommends</b> ensuring that, if the board of directors, in exceptional cases, asks the chairman of the board of directors to perform special operating activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect be passed to ensure that the board of directors maintains its independent, overall management and control function. Resolutions on the chairman's participation in day-to-day management and the expected duration hereof should be published in a company announcement.	Cemat complies			<p>The Chairman does not participate in the day-to-day management of Cemat.</p> <p>In 2017, 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>				
3.1.1 The committee <b>recommends</b> that the board of directors annually accounts for <ul style="list-style-type: none"> <li>the skills it must have to best perform its tasks,</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>

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<ul style="list-style-type: none"> <li>the composition of the board of directors, and</li> <li>the special skills of each member.</li> </ul>				<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>
<p>3.1.2 The committee <b>recommends</b> that the selection and nomination of candidates for the board of directors be carried out through a thoroughly transparent process approved by the overall board of directors. When assessing its composition and nominating new candidates, the board of directors must take into consideration the need for integration of new talent and diversity in relation to age, international experience and gender.</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>3.1.3 The committee <b>recommends</b> that the notice convening the general meeting when election of members to the board of directors is on the agenda be accompanied by a description of the nominated candidates' qualifications, including information about the candidates'</p> <ul style="list-style-type: none"> <li>other executive functions, among these memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises,</li> <li>demanding organisational tasks, and</li> </ul>	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>



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<p>information about</p> <ul style="list-style-type: none"> <li>whether candidates to the Board of Directors are considered independent.</li> </ul>				
<p>3.1.4 The committee <b>recommends</b> that the company's articles of association stipulate a retirement age for members of the board of directors.</p>	Cemat complies			<p>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.</p> <p>The year of birth of the individual Board members appears from the annual report under "Board of Directors and Management Board" and the Company's website. The retirement age is discussed below in this report in the description of Cemat's management.</p>
<p>3.1.5 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.</p>	Cemat complies			<p>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.</p>
<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 member of the executive board, or senior staff member in the company or an associate,</li> <li>within the past five years, have received larger emoluments from the</li> </ul>	Cemat complies			<p>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".</p>

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<p>company/group, a subsidiary undertaking or an associate in another capacity than as member of the board of directors,</p> <ul style="list-style-type: none"> <li>• represent the interests of a controlling shareholder,</li> <li>• within the past year, have had significant business relations (e.g. personal or indirectly as partner or employee, shareholder, customer, supplier or member of the executive management in companies with corresponding connection) with the company, a subsidiary undertaking or an associate,</li> <li>• be or within the past three years have been employed or partner at the external auditor,</li> <li>• have been chief executive in a company holding cross-memberships with the company,</li> <li>• have been member of the board of directors for more than 12 years, or</li> <li>• have been close relatives with persons who are not considered independent.</li> </ul>				
<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 assesses the expected time commitment for each function in order that the member does not take on more functions than he/she can manage satisfactorily for the company.</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>

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<p>3.3.2 The committee <b>recommends</b> that the management commentary, in addition to the provisions laid down by legislation, includes the following information about the members of the board of directors:</p> <ul style="list-style-type: none"> <li>• the position of the relevant person,</li> <li>• the age and gender of the relevant person,</li> <li>• whether the member is considered independent,</li> <li>• the date of appointment to the board of directors of the member,</li> <li>• expiry of the current election period,</li> <li>• other executive functions, e.g. memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises and</li> <li>• demanding organisational tasks, and</li> <li>• the number of shares, options, warrants and similar in the company, and other group companies of the company, owned by the member, as well as changes in the portfolio of the member of the securities mentioned which have occurred during the financial year.</li> </ul>	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> <p>No options or warrants are granted to Cemat's Board members.</p>
<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</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>

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<p>committees during the year and the number of meetings held by each committee, and</p> <ul style="list-style-type: none"> <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>				<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.
<p>3.4.3 The committee <b>recommends</b> that the Board of Directors set up a formal <u>audit committee</u> composed such that</p> <ul style="list-style-type: none"> <li>the chairman of the board of directors is not chairman of the audit committee, and</li> <li>between them, the members should possess such expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit aspects of companies whose shares are admitted to trading on a regulated market.</li> </ul>			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 monitors and reports 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,</li> <li>• makes recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function, and</li> <li>• monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>	Complies			It is assessed that there is no need for an internal audit in the 2017 financial year.
<p>3.4.6 The committee <b>recommends</b> that the Board of Directors establish a <u>nomination committee</u> chaired by the chairman of the board of directors with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• describe the qualifications required by the board of directors and the executive board, and for a specific membership, state the time expected to be spent on having to carry out the mem-</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>

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<p>bership, as well as assess the competences, knowledge and experience of the two governing bodies combined,</p> <ul style="list-style-type: none"> <li>• annually assess the structure, size, composition and results of the board of directors and the executive board, as well as recommend any changes to the board of directors,</li> <li>• annually assess the competences, knowledge and experience of the individual members of management, and report to the board of directors in this respect,</li> <li>• consider proposals from relevant persons, including shareholders and members of the board of directors and the executive board for candidates for the board of directors and the executive board, and</li> <li>• propose an action plan to the board of directors on the future composition of the Board of Directors, including proposals for specific changes.</li> </ul>				<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> with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• to recommend the remuneration policy (including the general guidelines for incentive-based remuneration) to the board of directors and the executive board for approval by the board of directors prior to approval by the general meeting,</li> </ul>			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>make proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensure that the remuneration is in compliance with the company's remuneration policy and the assessment of the performance of the persons concerned. The committee should have information about the total amount of remuneration that members of the board of directors and the executive board receive from other companies in the group, and</li> <li>recommend a remuneration policy applicable for the company in general.</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>				
3.5.1 The committee <b>recommends</b> that the board of directors establish an evaluation procedure where contributions and results of the board of directors and the individual members, as well as collaboration with the executive board are annually evaluated. Significant changes deriving from the evaluation should be included in the management commentary or on the company's website.			Cemat does not comply	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. The Chairman of the Board of Directors does however conducts regular evaluation of the members.
3.5.2 The committee <b>recommends</b> that in connection with preparation of the general meeting,	Cemat complies			Together with the rest of the Board of Directors, the Chairman regularly assesses whether the number of members is appropriate.

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the board of directors consider whether the number of members is appropriate in relation to the requirements of the company. This should help ensure a constructive debate and an effective decision-making process in which all members are given the opportunity to participate actively.				As laid down in the Articles of Association, the Board of Directors consists of three to six members elected by the shareholders. The Board of Directors considers the current number of Board members to be appropriate in light of the Group's size and complexity.
3.5.3 The committee <b>recommends</b> that at least once every year the Board of Directors evaluate the work and performance of the executive board in accordance with pre-defined clear criteria.	Cemat complies			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.
3.5.4 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>				
4.1.1 The committee <b>recommends</b> that the board of directors prepare a clear and transparent remuneration policy for the board of directors and the executive board, including <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> </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 compo-</p>



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<ul style="list-style-type: none"> <li>the reasons for choosing the individual components of the remuneration, and</li> <li>a description of the criteria on which the balance between the individual components of the remuneration is based.</li> </ul> <p>The remuneration policy should be approved by the general meeting and published on the company's website.</p>				<p>nents 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 2017.</p>
<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 linkage be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long term,</li> <li>there be clarity about performance criteria and measurability for award of variable components, and</li> <li>there be criteria ensuring that qualifying periods for variable components in remuneration agreements are longer than one calendar year, and</li> <li>an agreement is made which, in exceptional cases, entitles the company to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proved to be misstated.</li> </ul>	Cemat complies			<p>Cemat's remuneration policy includes a variable component applicable to the CEO.</p>

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
4.1.3 The committee recommends that remuneration of members of the board of directors does not include share options.	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
4.1.4 The committee <b>recommends</b> that if share-based remuneration is provided, such programmes be established as roll-over programmes, i.e. the options are granted periodically and should have a maturity of at least three years from the date of allocation.	Cemat complies			Cemat does not provide share-based remuneration.
4.1.5 The committee <b>recommends</b> that agreements on termination payments should not amount to more than two years' annual 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 the proposed remuneration for the board of directors for the current financial year be approved by the shareholders at the general meeting.	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 total remuneration granted to each member of the board of directors and the executive board		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

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
by the company and other companies in the group, including information on the most important contents of retention and retirement/resignation schemes, be disclosed in the annual report and that the linkage with the remuneration policy be explained.				<p>Management.</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>				
5.1.1 The committee <b>recommends</b> that the board of directors in the management commentary review and account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company's risk management.	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>				
5.2.1 The committee <b>recommends</b> that the board of directors decide whether to establish a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.			Cemat does not comply	As the parent company has no permanent employees apart from the CEO, the company has not established a whistleblower scheme.

RECOMMENDATION	Cemat complies	Cemat complies in part	Cemat does not comply	CEMAT'S COMMENTS:
<b>5.3. Contact to auditor</b>				
5.3.1 The committee <b>recommends</b> that the board of directors ensure regular dialogue and exchange of information between the auditor and the board of directors, including that the board of directors and the audit committee at least once a year meet with the auditor without the executive board present. This also applies to the internal auditor, if any.	Cemat complies			<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>
5.3.2 The committee <b>recommends</b> that the audit agreement and auditors' fee be agreed between the board of directors and the auditor on the basis of a recommendation from the audit committee.	Cemat complies			<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 2018 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 30.8% 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. Fifteen board meetings were held in 2017.

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, Cemat 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. Until mid-2016, Cemat's Audit Committee held five meetings.

## **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**

Cemat'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 2017, for the financial year 2017, the members of the Board of Directors of Cemat 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 Cemat'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.

Cemat's Management Board and a number of managerial employees have been granted warrants. The Management Board's share of these warrants, the terms and conditions and their valuation are disclosed in note 6 to the annual report.

### **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 Cemat 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 Cemat**

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 31 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.