

Solar A/S

CVR NO.: 15 90 84 16

# Corporate governance

2016



*stronger together*

# Corporate governance 2016

Solar considers that The Committee on Corporate Governance in Denmark's May 2013 recommendations (updated November 2014) are, in general, a valuable tool for exercising sound management, good transparency for shareholders and other stakeholders, and efficient risk management. Overall, Solar therefore complies with the recommendations wherever they are relevant to the company.

The recommendations comprise the following key areas:


- 1  Communication and interaction by the company with its investors and other stakeholders
- 2  Tasks and responsibilities of the board of directors
- 3  Composition and organisation of the board of directors
- 4  Remuneration of members of the governing bodies
- 5  Financial reporting, risk management and audit


## Key


A colored line is placed at each point in the recommendations. The colour of the line indicates whether we believe Solar's practice complies with the corporate governance recommendations.

## Main points

The symbol placed at the main point indicates that Solar's practice:


 **Complies** with the recommendations in all respects


 **Partly complies** with the recommendations

 That some sub-items **do not comply** with the recommendations

## Sub-items

The symbol placed at each sub-item indicates that Solar's practice:

 **Complies** with the recommendations

 **Partly complies** with the recommendations

 **Does not comply** with the recommendations

## Recommendations

The Committee on Corporate Governance in Denmark's recommendations for corporate governance as at May 2013 (updated November 2014).

## Practice

Solar A/S' corporate governance practice adopted by Solar's Board of Directors on 10 February 2017.

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Communication  
and interaction  
by the company  
with its investors  
and other  
stakeholders

The company's investors, employees and other stakeholders have a joint interest in stimulating the Company's growth, and in the company always being in a position to adapt to changing demands, thus allowing the company to continue to be competitive and create value.

Therefore, it is essential to establish a positive interaction not merely between management and investors, but also in relation to other stakeholders.

Good corporate governance is also about establishing appropriate frameworks which enable investors to enter into a dialogue with management of the company.

Openness and transparency are essential conditions for the company's investors and other stakeholders to have regular access to evaluate and relate to the company and its future, and thus engage in a constructive dialogue with the company.

As owners of the company, the shareholders should actively exercise their rights and influence at general meetings in order to help the company's management protect the interests of its shareholders as best as possible and thereby ensure an appropriate and balanced development of the company in the short and long term.

Solar wishes to maintain an ongoing dialogue with the company's shareholders and other stakeholders. Furthermore, Solar wishes to provide as timely and detailed information about the company's development and to show as much openness and transparency as possible, balanced with necessary consideration for the company's competitive situation.

It is our intention to provide an accurate and continually updated view of the company's position, financial situation and possibilities for development, and that this information is made available to all the company's stakeholders at the same time.

It is Solar's perception that there on the long term is a convergence of interests among all of the company's stakeholders. Thus, the company wishes to focus on exactly these long term interests, which are then decisive for the company's ethics, politics and information practice.

## 1.1 Dialogue between company, shareholders and other stakeholders

### 1.1.1

#### Recommendation

The Committee recommends that the board of directors ensure ongoing dialogue between the company and its shareholders in order for the shareholders to gain relevant insight into the company's potential and policies, and in order for the board of directors to be aware of the shareholders' views, interests and opinions on the company.

#### Comment

The company's dialogue with its shareholders may be summarised in an Investor Relations strategy on the type of information to be published, the language to be used, as well as how, when and to whom this should be published. The strategy should also relate to selection and attraction of investor target groups. Communication aims at ensuring that all shareholders regularly receive the same information.

The insight of the board of directors into the dialogue may possibly be established through participation in investor meetings or reporting from such meetings, or through regular reporting from the executive board. On behalf of the board of directors, the chairman should ensure good and constructive relations with the shareholders.

#### Practice

Solar has an investor relations policy concerning the company's dialogue with its shareholders. Solar communicates with its shareholders at the general meeting, via frequent announcements on Nasdaq Copenhagen in Danish and English, via its website [www.solar.eu](http://www.solar.eu) and via web presentations. In addition to online audio webcasts in connection with the publication of the annual and quarterly reports, the company's Executive Board participates in roadshows,

seminars, investor and analyst meetings as well as other investor-related activities in Denmark and abroad. Investor relations material is available at [www.solar.eu](http://www.solar.eu) where Solar's stakeholders can also register for an electronic newsletter and receive company announcements and press releases by e-mail.

### 1.1.2

#### Recommendation

The Committee recommends that the board of directors adopt policies on the company's relationship with its stakeholders, including shareholders and other investors, and that the board ensures that the interests of the shareholders are respected in accordance with company policies.

#### Comment

The policies which the board of directors of a company may adopt could be a communication policy or a policy for the company's relationship with its investors. In addition, if indicated by the company's circumstances, the board of directors should consider adopting a tax policy. This should most appropriately be rooted in the audit committee, cf. recommendations 3.4.3-3.4.5.

#### Practice

Solar considers shareholders, employees, customers, suppliers, lenders and the surrounding society important stakeholders.

Solar has decided to allocate considerable resources to ongoing information to and contact with investors, cf. recommendation 1.1.1. In addition, the company has set out a Code of Conduct, which details the company's and its employees' conduct and obligations in relation to customers, suppliers and society in general.

Solar's Board of Directors has adopted policies for significant areas, also including a tax policy. The policies are rooted in the Audit Committee.

### 1.1.3

#### Recommendation

The committee recommends that the company publish quarterly reports.

#### Practice

Solar publishes quarterly reports.

## 1.2 General meeting

### 1.2.1

#### Recommendation

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

#### Comment

When organising the general meeting, it is important to ensure that the shareholders have an opportunity to participate, and that they are able to voice their opinions at the general meeting. Considerations should address holding the general meeting wholly or partly electronically to ensure that the shareholders are able to participate without having to be physically present. The shareholders will then be in a position to influence and guide the management of the company on the development of the company in the short and long term.

#### Practice

Solar sends out adequate notice of the general meeting, which meets both legal requirements and those of the Articles of Association. The notice contains all relevant information in relation to the general meeting in question. The shareholders are informed of their right to pose questions and send in proposals to the general meeting. All relevant documents used for the general meeting are available at [www.solar.eu](http://www.solar.eu), which also contains a link to the investor portal with the option for electronic registration to the general meeting and proxy voting. Until further notice, the Board of Directors has decided to hold general meetings solely by physical attendance. In 2016, the annual general meeting was made available to the company's shareholders via webcast on the Investor Portal.

### 1.2.2

#### Recommendation

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

#### Practice

By submitting proxies, Solar's shareholders have the possibility to consider each individual item on the agenda.

### 1.3 Takeover bids

#### 1.3.1

#### Recommendation

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

#### Comment

The board of directors should ensure that contingency procedures have been prepared in the event of takeover bids. Such contingency procedures aim at ensuring that the shareholders have a real opportunity to decide whether or not they wish to dispose of their shares in the company under the terms offered, and that the board of directors

- is informed about the formal conditions in the event of external enquiries,
- has discussed who will assume which tasks, and the advisors to be consulted,
- is ready for the challenges which the company's value-creation plan might present, cf. the comment on recommendation 2.1.2.

The board of directors will not be in conflict with the recommendations if it seeks alternative (competing) takeover bids in order to create value for its shareholders.

#### Practice

Solar has established a contingency procedure for takeover bids. If the Board of Directors becomes aware that a takeover bid is about to be made, the shareholders will be informed hereof according to this

procedure, just as the opinion of the Board of Directors will be published subsequently. The takeover bid and the statement of the Board of Directors will be discussed with the shareholders at a general meeting. Following a debate at the general meeting, the takeover bid will be put to the vote so that, in effect, the shareholders can decide, cf. § 13.2 of the Articles of Association.

# 2

Tasks and  
responsibilities  
of the board of  
directors

It is incumbent upon the board of directors to carefully protect the interests of the shareholders with due consideration for the other stakeholders.

The board of directors is responsible for the overall and strategic management of the company to ensure value creation in the company. The board of directors must to lay down the strategic goals of the company and ensure that the prerequisites necessary in order to reach such goals are present, in the form of financial resources and competences, and to ensure appropriate organisation of the activities of the company.

The prerequisite for meeting the company's strategic goals is that the board of directors employ a competent executive board, lays down the division of responsibilities between the board of directors and the executive board, the tasks and employment relationships of the executive board, and also establishes clear guidelines for accountability, planning, follow-up and risk management. The board of directors must supervise the executive board and lay down guidelines for the supervision.

The board of directors is responsible for ensuring the development, retention or dismissal of the executive board, as well as for ensuring that remuneration of the executive board reflects the long-term value creation in the company and the results otherwise achieved by the executive board.

The chairman of the board of directors organises, convenes and leads meetings of the board of directors to ensure efficiency in the board's work and to create the best possible working conditions for the members individually and collectively. This ensures that the individual member's special knowledge and skills are used in the best possible manner and to the benefit of the company.

In order for the board of directors to be able to meet its obligations, the chairman should cooperate with the board of directors on ensuring that members regularly

receive updates, and expand their knowledge about matters relevant to the company, as well as ensure that the special knowledge and skills of each individual member are used in the best possible manner to the benefit of the company.

**Solar's Board of Directors handles the overall and strategic management of the company in order to ensure the company's value creation. The board acknowledges its responsibility for appointing a qualified Executive Board, a clear organisation, effective control and risk management tools and for determining and following up on strategic objectives in due consideration of financial opportunities and the company's management resources. The chairman organises, convenes and chairs the company's Board of Directors' meetings.**

## 2.1 Overall tasks and responsibilities

### 2.1.1

#### Recommendation

The Committee recommends that at least once a year the board of directors take a position on the matters related to the board's performance of its responsibilities.

#### Comment

Through appropriate planning of the tasks of the board of directors, sufficient time should be available for the board to discuss the company's overall strategic goals and value creation. Setting up an annual plan - the "annual wheel" - may contribute to ensuring appropriate processing of the tasks of the board of directors adapted to the activities and needs of the company. A review of the rules of procedure for the board of directors is also part of this plan.

#### Practice

The Board of Directors has established an annual plan for handling the board's tasks, which is assessed annually together with the rules of procedure for the Board of Directors and the Executive Board with a view to possible revision. The Board of Directors continuously assesses whether the business objectives are met and whether the agreed financial controls are executed. Strategic and business objectives are determined annually, while control and risk management are adjusted as required in an interaction between external accountants, Internal Audit, the Audit Committee, the Board of Directors and the Executive Board.

The Board of Directors holds ordinary meetings six times a year and, in addition, meets when required.



### 2.1.2

#### Recommendation

The Committee recommends that at least once a year the board of directors take a position on the overall strategy of the company with a view to ensuring value creation in the company.

#### Comment

Strategy discussions should focus on implementation through a plan for value creation comparable to alternative scenarios, including a “best owner” principle scenario with synergy effect from either selling or purchasing. The results of these discussions may form the basis for further discussion on whether the company’s strategy sufficiently responds to the company’s short and long-term opportunities and challenges.

The ongoing strategy work should be planned such that the board of directors has a real possibility of influencing the company’s strategic direction. This could be by involving the board of directors in the strategy work along the way.

#### Practice

The Board of Directors contributes to the formulation and determination of the company’s development and growth strategies which are considered at an annual Board of Directors conference. In connection with the Board of Directors conference, the Board of Directors assesses if the necessary competencies and financial resources are present.

### 2.1.3

#### Recommendation

The Committee recommends that the board of directors ensure that the company has a capital and share structure ensuring that the strategy and longterm value creation of the company are in the best interest of the shareholders and the company, and that the board of directors presents this in the management commentary on the company’s annual report and/or on the company’s website.

#### Comment

For the purpose of these recommendations, capital and share structures refer to the size of the share capital, the denomination, the number of share classes and the voting rights attached to the share classes, including restrictions on voting rights, the right to dividends, the distribution between equity financing and loan capital financing, treasury shares, share buy-backs, etc. The key element of this assessment is to ensure that the company is adequately capitalised and ensure adequate liquidity of the share and a reasonable distribution of risk and influence.

#### Practice

Solar continuously assesses the company’s capital and share structure. Solar has one unlisted A share class with 10 votes per share and one share class listed on Nasdaq Copenhagen with one vote per share. A shares are mainly owned by the Fund of 20<sup>th</sup> December, which held 15.6% of share capital and 57.5% of votes as at 31 December 2016, making the fund the company’s majority shareholder. Solar finds that the current ownership structure supports the company’s desire to operate on the basis of a long-term development and growth strategy.

In order to adjust its capital structure on an ongoing basis, the company uses payout of dividend, share buy backs, sale of treasury shares and capital increases.

### 2.1.4

#### Recommendation

The Committee recommends that the board of directors annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board on timely, accurate and adequate reporting to the board of directors.

#### Comment

Guidelines on the division of responsibilities between the board of directors and the executive board should lay down more detailed frameworks for the interaction, including e.g. investment rules and the division of responsibilities between members of the executive board. If the board of directors or the executive board has special requests for work procedures, approval of policies and powers, this should be included in the guidelines.

#### Practice

The company’s Rules of Procedure for the Executive Board contain procedures for the Executive Board’s reporting to the Board of Directors. Prior to Board of Directors’ meetings, the Executive Board sends out information to be considered at the meeting. In addition, information about all material matters is exchanged on an ongoing basis between the Executive and the Board of Directors.

### 2.1.5

#### Recommendation

The Committee recommends that at least once a year the board of directors discuss the composition of the executive board, as well as developments, risks and succession plans.

#### Comment

Particularly in relation to risks, the executive board and the other management layers must be composed so that short absence of a member of the executive board does not significantly affect the day-to-day operations of the company.

#### Practice

In connection with the annual evaluation of the Executive Board, the Board of Directors also discusses the composition and development of the Executive Board as well as succession plans.

### 2.1.6

#### Recommendation

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

#### Comment

Diversity includes e.g. age, international experience and gender. It would be appropriate to prepare action plans describing the company's efforts in respect of diversity at management levels addressing the needs and future development of the company. Such action plans may supplement statutory requirements on target figures and policies for the gender-related composition of management and reporting in this respect.

#### Practice

The company wants diversity of, among other things, gender and age at all levels of the business, and diversity is an aspect when the company fills positions and promotes employees. Also, diversity is sought at group level in relation to those nationalities that make up the business. First and foremost, the company prioritises professional and human competencies, but has established a policy on diversity in management bodies in Solar. Among other things, the policy includes a target for the underrepresented gender to make up 40% of the Board of Directors following Solar's general meeting in 2019. Furthermore, the policy includes the target that the underrepresented gender must make up 25% in total of upper management by the end of 2018. Upper management is defined as Solar Group Management (SGM) and senior level managers, such as vice presidents or directors, who report to an SGM member.

## 2.2 Corporate Social Responsibility

### 2.2.1

#### Recommendation

The Committee recommends that the board of directors adopt policies on corporate social responsibility.

#### Comment

In this connection, the board of directors may take a position on the company's possible adoption of recognised national and international voluntary initiatives.

#### Practice

In 2009, Solar signed up for the United Nations' Global Compact programme. Solar has set up a CO2 consumption reporting system and has signed up for the Carbon Disclosure Project. Solar has established an ethical standard with an associated Code of Conduct, which all employees are obliged to comply with in practice. All group contracts with suppliers contain a clause under which the suppliers are committed to adhere to the Global Compact's principles.

## 2.3 Chairman and vice-chairman of the board of directors

### 2.3.1

#### Recommendation

The Committee recommends 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.

#### Comment

The rules of procedure of the board of directors may include a general description of the tasks, duties and responsibilities of the chairman and the vicechairman.

#### Practice

The Board of Directors has appointed a vice-chairman, who assists the chairman in special tasks and acts in the absence of the chairman.

Guidelines for the Board of Directors including the chairman's and the vice-chairman's responsibilities and tasks are described in the company's Rules of Procedure.

### 2.3.2

#### Recommendation

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

#### Comment

A reasonable division of responsibilities should be ensured between the chairman, the vice-chairman, the other members of the board of directors and the executive board. An agreement regulating the chairman's discharge of special tasks should contain provisions on the special precautions taken to protect the distribution of roles and responsibilities between the members of the board of directors and between the board of directors and the executive board.

#### Practice

The chairman does not participate in the day-to-day management of the company. If, in exceptional circumstances, and following a decision hereon, the Board of Directors requests the chairman to participate in the day-to-day management, the recommendation concerning the precautions taken to protect the distribution of roles and responsibilities between the Board of Directors and the Executive Board will be followed.

# 3

Composition  
and organisation  
of the board of  
directors

The board of directors should be composed so that it is able to execute its strategic, managerial and supervisory tasks.

It is essential that the board of directors be composed so as to ensure effective performance of its tasks in a constructive and qualified dialogue with the executive board. It is also essential that the members of the board of directors always act independently of special interests.

The board of directors defines the skills required by the company and regularly assesses whether its composition and the skills of its members individually and collectively reflect the requirements of the company's situation and conditions.

Diversity improves the quality of the work and the interaction of the board of directors, e.g. through different approaches to the performance of management tasks.

To increase value creation, the board of directors should evaluate its members every year and ensure integration of new talent while maintaining continuity.

In addition to the members of the board of directors elected by the general meeting, the board of directors may comprise members elected by the employees pursuant to the regulations of the Companies Act.

Solar finds it important that the Board of Directors represents diversity in relation to skills, age and gender and that, through regular replacement of its members, a dynamic balance between continuity and renewal is maintained.

In accordance with the Danish Public Companies Act, Solar has employee-elected members of the Board of Directors who participate with the same rights, obligations and responsibilities as members elected by the general meeting. The company considers it important that employee-elected members of the Board of Directors participate in the work of the Board of Directors on equal terms with other members.

## 3.1 Composition

### 3.1.1

#### Recommendation

The Committee recommends that the board of directors annually accounts for

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

#### Practice

Once a year, the Board of Directors reviews the skills and experiences of the board available to the company and considers what is needed. The Board of Directors' competence description is available at Solar's website [www.solar.eu](http://www.solar.eu).

The company's Annual Report also includes information about the ages of the members of the Board of Directors, their position, board memberships, skills, and the date of their appointment for the Board of Directors.

### 3.1.2

#### Recommendation

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

#### Practice

The Board of Directors neither selects nor nominates candidates to the Board of Directors, as it is the Fund

of 20<sup>th</sup> December, which is a majority shareholder, that submits proposals for the composition of the Board of Directors. In this connection, importance is attached to the board members representing relevant skills in relation to the company's needs.

The aim is to continuously ensure a balance between continuity and renewal of the Board of Directors.

### 3.1.3

#### Recommendation

The Committee recommends 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'

- other executive functions, among these memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises
- demanding organisational tasks, and information about whether candidates to the board of directors are considered independent.

#### Comment

The description may contain information about recruitment criteria established by the board of directors, including requirements for professional and personal qualifications, knowledge about the industry, diversity (e.g. age, international experience and gender), educational background, etc., which represent qualities paramount to the board of directors. The nomination to the general meeting on the composition of the board of directors should be drawn up against this background.

#### Practice

With the nomination of candidates to the Board of Directors from the Fund of 20<sup>th</sup> December follows a description of the individual candidate's background and skills.

Furthermore, in connection with the presentation of proposals for the composition of the Board of Directors, information about other managerial offices as well as the dependency/independency of each individual is made available.

### 3.1.4

#### Recommendation

The Committee recommends that the company's articles of association stipulate a retirement age for members of the board of directors.

#### Practice

The age of the members of the Board of Directors is given in Solar's Annual Report. Solar wishes to promote age diversity among the Board of Directors, but believes that skills are more important than age, there is no fixed age limit for board members.

### 3.1.5

#### Recommendation

The Committee recommends that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.

#### Practice

All board members elected by the general meeting are up for election every year.

## 3.2 Independence of the board of directors

### 3.2.1

#### Recommendation

The Committee recommends that at least half of the members of the board of directors elected by the general meeting be independent persons, in order for the board of directors to be able to act independently of special interests. To be considered independent, this person may not:

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

#### Comment

The board of directors decides which members are considered independent persons. When applying the independence criteria, the board of directors should focus on substance rather than form.

Independence means that the person in question does not have close ties to or represents the executive board, the chairman of the board of directors, controlling shareholders or the company.

It is important that the board of directors introduces new talent among its members, and that the individual members of the board of directors, under the circumstances, recognise the value of being critical of previously adopted resolutions.

The fact that a member of the board of directors was elected by votes of the controlling shareholder does not in itself influence the assessment of that member's independence. Other factors determine the question of independence, including whether the person in question is member of the executive management of or has close ties to the company's controlling shareholder.

Cross-memberships of executive management are seen e.g. where a member of the board of directors in company A is a member of the executive board in company B, at the same time as a member of the board of directors in company B is a member of the executive board in company A. A similar situation may arise where a member of the board of directors has significant links with members of the executive board in the company through involvement in other companies or entities.

In the view of the Committee, employee representatives are not independent.

#### Practice

The Board of Directors is made up in accordance with the recommendations, meaning that at least half of the members elected by the general meeting are independent.

### 3.3 Members of the board of directors and the number of other executive functions

#### 3.3.1

##### Recommendation

The Committee recommends that each member of the board of directors assesses the expected time commitment for each function in order that the member does not take on more functions than he/she can manage satisfactorily for the company.

##### Comment

A member of the board of directors who is also a member of the executive management of a company, should generally not take on more than a few non-executive directorships or one chairmanship and one non-executive directorship in companies not forming part of the group. This assessment should also consider the number and scope of committee posts.

##### Practice

It is expected that the individual board member assesses whether his or her duties in other enterprises are of an appropriate extent and whether his or her function within the Board of Directors is compatible with other functions.

#### 3.3.2

##### Recommendation

The Committee recommends that the management commentary, in addition to the provisions laid down by legislation, includes the following information about the members of the board of directors:

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

##### Practice

Solar's Annual Report and the Solar Group's website [www.solar.eu](http://www.solar.eu) contain a description of the managerial offices including board memberships, competencies and the extent to which each member is considered dependent/independent. Members of the Board of Directors of Solar are not offered stock options, authority to sign documents, possibilities to buy company shares at a discount or other incentive schemes, but the Annual Report provides information about the number of Solar shares held by members of the Board of Directors and changes that have taken place during the financial year.

Furthermore, the Annual Report contains information about the date of each board member's appointment to the board and that all members elected at the general meeting are up for election annually.

### 3.4 Board committees

Board committees may increase efficiency and improve the quality of the work performed by the board of directors.

A board committee should be set up with the sole purpose of facilitating the transaction of business by the board of directors and must not cause significant information required by all members of the board of directors only to be communicated to the board committee, or that the processing required in the board of directors be limited or omitted.

The board of directors remains fully responsible for all decisions prepared by a board committee.

The board of directors should consider whether the company is particularly exposed, or whether other matters might motivate setting up further permanent committees other than the ones recommended below. This may help obtain better exploitation of the special competences of the board of directors. For example, this could be research and development or risk committees.

The board of directors may also set up ad hoc committees in connection with special tasks or issues of significant, though temporary nature. This may help ensure the required focus on the task in question as well as temporal prioritisation. Such issues could be CSR, ethical or image-related issues, large acquisitions or takeover bids.

#### Practice

Aside from an audit committee and a remuneration committee, special board committees are only set up in connection with extraordinary tasks. The full Board of Directors participates in the review of all other matters, as it is assessed that this is where they are handled best considering the limited complexity of both the company and the issues at hand.

#### 3.4.1

##### Recommendation

The Committee recommends that the company publish the following on the company's website:

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

##### Practice

Information about the Audit Committee's composition, the charter of the Audit Committee, most important tasks and the number of meetings during the year can be found on [www.solar.eu](http://www.solar.eu). Furthermore, the website provides information about its members' special qualifications and independence. The Remuneration Committee's charter is also available at [www.solar.eu](http://www.solar.eu).

#### 3.4.2

##### Recommendation

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

##### Practice

The majority of the members of the Audit Committee and the Remuneration Committee are independent.

#### 3.4.3

##### Recommendation

The Committee recommends that the board of directors set up a formal audit committee composed such that

- the chairman of the board of directors is not chairman of the audit committee, and
- between them, the members should possess such expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit aspects of companies whose shares are admitted to trading on a regulated market.

##### Practice

In 2007, in accordance with the 8th Directive, Solar set up an Audit Committee that prepares the board's handling of auditing and accounting matters. The Audit Committee possesses the necessary professional skills and experience, including knowledge of accounting and auditing matters for listed companies. The chairman of the Board of Directors cannot chair the Audit Committee.

#### 3.4.4

##### Recommendation

The Committee recommends that, prior to the approval of the annual report and other financial reports, the audit committee monitors and reports to the board of directors about:

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



**Practice**

Prior to the approval of the Annual Report, the Audit Committee oversees and reports on accounting policies, significant accounting estimates, any related party transactions as well as uncertainties and risks.

**3.4.5****Recommendation**

The Committee recommends that the audit committee:

- annually assesses the need for an internal audit, and in such case, makes recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function, and
- monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function.

**Comment**

The alternative to setting up an internal audit function may be to outsource the task, possibly to another party than the auditor elected by the general meeting. The party in question will carry out the internal audit and refer to the board of directors.

**Practice**

Apart from the statutory external audit, Solar has an Internal Audit department surveilling and testing the internal control of the group and its subsidiaries. Internal Audit participates in all Audit Committee meetings and reports to the Audit Committee and the Board of Directors on a regular basis.

Every year the Audit Committee reviews Internal Audit's work and budgets and continuously monitors the company's and Executive Board's follow-up on Internal Audit's recommendations.

**3.4.6****Recommendation**

The Committee recommends that the board of directors establish a nomination committee chaired by the chairman of the board of directors with at least the following preparatory tasks:

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

**Comment**

When electing candidates for the board of directors, external assistance should be considered.

**Practice**

Due to its ownership structure with a majority shareholder, cf. recommendation 3.1.2, Solar has not established a permanent nomination committee tasked with nominating members of the Board of Directors. However, every year, the Board of Directors evaluates the skills requirements of the Board of Directors. In connection with the appointment of members of the Executive Board, a temporary nomination committee is established.

**3.4.7****Recommendation**

The Committee recommends that the board of directors establish a remuneration committee with at least the following preparatory tasks:

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

**Practice**

Solar has established a remuneration committee. The remuneration committee has three members, including a chairman, who has been elected by the Board of Directors among its members. The remuneration committee will recommend a remuneration policy (including general guidelines for incentive-based remuneration for the Executive Board) to be approved by the Board of Directors prior to the annual general meeting. Negotiations about changes to the remuneration of the Executive Board are handled by the remuneration committee with a mandate from the Board of Directors.

### 3.4.8

#### Recommendation

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

#### Practice

In connection with negotiations concerning the Executive Board's remuneration, the Board of Directors draws on separate advice that is independent of the company.

## 3.5 Evaluation of the performance of the board of directors and the executive board

The evaluation process is to form the basis for continuous improvements in board work and is to ensure that the board of directors continues to have the right composition and regularly introduces new talent. Involving external assistance in the evaluation process may be considered periodically.

### 3.5.1

#### Recommendation

The Committee recommends that the board of directors establish an evaluation procedure where contributions and results of the board of directors and the individual members, as well as collaboration with the executive board are annually evaluated. Significant changes deriving from the evaluation should be included in the management commentary or on the company's website.

#### Comment

The evaluation should consider the composition, work and results of the board of directors (including the number of members). The need for and usefulness of the committee structure, as well as organisation of work and the quality of material for the board of directors, should also be included in the evaluation.

The evaluation of the individual member could benefit from being carried out as an anonymous assessment among the other members to be followed by an annual interview between the chairman and the individual member. The evaluation of the chairman should be undertaken by a member other than the chairman.

To increase value creation, the board of directors should carry out an evaluation of its composition every year and ensure integration of new talent while maintaining continuity.

This evaluation should form the basis for new initiatives to be launched, such as relevant supplementary training and new talent or replacement.

This evaluation will also include participation by the individual members in board and committee meetings.

#### Practice

The Board of Directors undertakes an annual evaluation of the work of the board and the interaction between the Board of Directors and the Executive Board. This includes an evaluation of the chairman's management of the board's work. The chairman is in charge of the evaluation, which is discussed by the Board of Directors. If a need for skills development becomes apparent, members of the Board of Directors will participate in relevant courses and supplementary training as agreed. The result of the evaluation will be presented in the Annual Report.

### 3.5.2

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#### **Recommendation**

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

#### **Practice**

The Articles of Association stipulate that the Board of Directors consists of 4-8 members elected by the general meeting. Solar's Board of Directors currently consists of 6 members elected by the general meeting and 3 members elected by the company's employees.

Once a year, the company assesses if the number of board members is appropriate.

### 3.5.3

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#### **Recommendation**

The Committee recommends that at least once every year the board of directors evaluate the work and performance of the executive board in accordance with predefined clear criteria.

#### **Comment**

Executive board members, who are members of the board of directors, should not participate in the board of directors' evaluation of the executive board as they are regarded as disqualified in this respect.

#### **Practice**

The Board of Directors continuously and furthermore at least once a year evaluates the Executive Board's work and results in accordance with the pre-defined business objectives.

### 3.5.4

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#### **Recommendation**

The Committee recommends that the executive board and the board of directors establish a procedure according to which their cooperation is evaluated annually through a 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.

#### **Comment**

This evaluation should be integrated into the overall evaluation by the board of directors.

#### **Practice**

The partnership between the Board of Directors and the Executive Board is evaluated annually in accordance with a pre-defined procedure through a formalised dialogue between the chairman and the Executive Board and the result is presented to the Board of Directors.

# 4

## Remuneration of management

Openness and transparency about all important issues regarding company policy on and amounts of the total remuneration offered to members of the governing bodies are essential. Company policy on remuneration should support a long-term value creation for the company.

Competitive remuneration is a prerequisite for attracting and retaining competent members of the management of the company (the board of directors and the executive board). The company should have a remuneration policy, according to which the total remuneration package, i.e. the fixed and variable components and other remuneration components, as well as other significant employment terms, should be reasonable and reflect the governing body members' independent performance, responsibilities and value creation for the company.

The variable component of the remuneration (the incentive pay scheme) should be based on actual achievements over a period of time with a view to long-term value creation so as not to promote short-term and risky behaviour.

Remuneration of the Executive Board is negotiated with the chairman and vice-chairman within the framework and guidelines defined by the Board of Directors which, for instance, ensures that the remuneration is set at the same level as those of comparable enterprises.

Remuneration of the Board of Directors is also fixed in accordance with that of comparable enterprises.

## 4.1 Form and content of the remuneration policy

### 4.1.1

#### Recommendation

The Committee recommends that the board of directors prepare a clear and transparent remuneration policy for the board of directors and the executive board, including

- a detailed description of the components of the remuneration for members of the board of directors and the executive board,
- the reasons for choosing the individual components of the remuneration, and
- a description of the criteria on which the balance between the individual components of the remuneration is based.

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

#### Comment

The remuneration policy comprises fixed emoluments as well as incentive pay schemes. The remuneration policy, including the general guidelines for incentivebased remuneration laid down in section 139 of the Companies Act, is after approval by the general meeting only to be heard by the general meeting again, if the policy or the guidelines adopted for incentive-based remuneration are subject to changes.

#### Practice

The company's Rules of Procedure for the Board of Directors lay down the principles for determining the remuneration of the Board of Directors, including that the chairman receives three times the remuneration and that the vice-chairman and the chairman of the Audit Committee receive one and a half times the remuneration.

In consultation with the vice-chairman, the chairman of the Board of Directors assesses the remuneration of the Executive Board in accordance with contractually determined terms. Remuneration policies and general guidelines for salary and incentive programmes for the Executive Board and Solar Group Management (SGM) have been adopted at the general meeting.

The remuneration policy includes exhaustive descriptions of the remuneration components that form part of payment to the company's management and is described in the Annual Report and on the company's website.

#### 4.1.2

##### **Recommendation**

The Committee recommends that, if the remuneration policy includes variable components,

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

##### **Practice**

Limits have been set as to the size of both share-based options and non-share-based incentive payments in relation to the fixed remuneration in order to ensure an appropriate balance between long-term and short-term

interests and balanced risk. Non-share-based incentive pay is directly linked to the EBITA achieved, while the allocation of share options is not performance-related.

The current remuneration agreement for the Executive Board states that, in very specific cases, the company is entitled to repayment of variable payroll costs if an Executive Board member violates his/her contract.

#### 4.1.3

##### **Recommendation**

The Committee recommends that remuneration of members of the board of directors does not include share options.

##### **Comment**

If members of the board of directors are partly remunerated in the form of shares at market value, this does not contravene with these recommendations.

##### **Practice**

The Board of Directors receives a fixed remuneration and therefore does not receive incentive pay.

#### 4.1.4

##### **Recommendation**

The Committee recommends that if share-based remuneration is provided, such programmes be established as roll-over programmes, i.e. the options are granted periodically and should have a maturity of at least three years from the date of allocation.

##### **Practice**

Share-based incentive programmes in Solar are revolving and may be exercised 3 years after granting at the earliest, and no later than 4 years after the granting. The exercise price of any share instrument

cannot be lower than the price at the date of issue. The terms for the share option programme are described in Solar's Annual Report. Among other things, it is stipulated in the terms that, in connection with measuring the share option, the average price of the company's shares over 10 business days after publication of the company's Annual Report is to be used. The redemption price is the price used at measurement.

#### 4.1.5

##### **Recommendation**

The Committee recommends that agreements on termination payments should not amount to more than two years' annual remuneration.

##### **Practice**

If Solar terminates the employment of the company's CEO, the CEO will be paid up to one year's remuneration and six additional months' salary.

## 4.2 Disclosure of the remuneration policy

### 4.2.1

#### Recommendation

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

#### Practice

The company's remuneration policy, its background and its compliance is treated in the Annual Report's note 5, staff costs.

### 4.2.2

#### Recommendation

The Committee recommends that the proposed remuneration for the board of directors for the current financial year be approved by the shareholders at the general meeting.

#### Practice

The Annual Report provides information about the remuneration of members of the Board of Directors. Proposals for remuneration of the Board of Directors for the current financial year are presented as a separate item for consideration at the general meeting.

### 4.2.3

#### Recommendation

The Committee recommends that the total remuneration granted to each member of the board of directors and the executive board by the company and other companies in the group, including information on the most important contents of retention and retirement/resignation schemes, be disclosed in the annual report and that the linkage with the remuneration policy be explained.

#### Comment

If the total remuneration includes contributions to pension schemes, such payments and the actuarial value and changes of such schemes over the year, are considered to be covered by the disclosure on remuneration. Severance programmes cover a wide area, including period of notice and qualification, termination payment, change of control agreements, insurance and pension schemes, payment of pension contributions after retirement, etc.

#### Practice

The Annual Report contains information about the remuneration of each member of the Board of Directors and Executive Board. Also, the link to the remuneration policy is described.

Furthermore, the Annual Report contains information about retention and severance programmes for the Executive Board. The company has no pension commitments in relation to the Executive Board.

# 5

Financial  
reporting, risk  
management  
and audits



Each member of the board of directors and the executive board is responsible for preparing the annual report and other financial reports in accordance with current legislation, applicable standards and any further requirements concerning financial statements stipulated in the articles of association, etc.

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

The members of the board of directors and executive board must ensure that the financial reporting is easy to understand and balanced and provides a true and fair view of the company's financial position, performance and cash flow. The management commentary must give a true and fair presentation of the state of affairs, including value creation and the outlook.

When considering and approving the annual report, the board of directors must decide whether the business is a going concern, including supporting assumptions or qualifications where necessary.

Effective risk management and an effective internal control system contribute to reducing strategic and business risks, to ensuring observance of current rules and regulations and to ensuring the quality of the basis for management decisions and financial reporting. It is essential that the risks are identified and communicated, and that the risks are managed appropriately.

Effective risk management and internal control are a precondition for the board of directors and the executive board to efficiently perform the tasks bestowed upon them. Consequently, it is essential that the board of directors ensure effective risk management and effective internal controls.

An independent and competent audit is essential for the board's work.

Solar prepares quarterly reports in accordance with IAS 34 and annual reports in accordance with International Financial Reporting Standards (IFRS). The Audit Committee and the Board of Directors monitor compliance in conjunction with Internal Audit and external auditors.

The Executive Board is responsible for the implementation of effective systems for risk management and internal control across the group and for maintaining focus on the ongoing improvement of these systems. The Board of Directors and the Audit Committee continuously evaluate the efficiency of Solar's systems with regard to risk management and internal control.

The Board of Directors continuously evaluates the prerequisites of a going concern and, in connection with the approval of quarterly and annual reports, sets out its view in the report of the proceedings of the Board of Directors.

Having consulted the Executive Board, the Board of Directors appoints an auditor based on the recommendation of the Audit Committee. The Board of Directors is briefed by the Executive Board if an agreement is made with the auditor for material non-auditing services. Moreover, the auditor reports any non-accounting services in the auditor's records on an ongoing basis.

## 5.1 Identification of risks and transparency about other relevant information

### 5.1.1

#### Recommendation

The Committee recommends that the board of directors in the management commentary review and account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company's risk management.

#### Comment

Information about the company's risk management in relation to strategic and business-related risks supplements the statutory account in the management commentary on the company's internal control and risk management systems in connection with the financial reporting process.

The executive board should regularly identify the most important risks and report to the board of directors about the developments in the most important risk areas, including initiatives and action plans.

#### Practice

Due to the nature of Solar's business, results and equity can be affected by a range of commercial and financial risks, and the company attaches great importance to the ongoing evaluations of such risks. The Annual Report and the Solar Group's website contain a description of the individual elements.

Solar describes the risks attached to the group's activities in its Annual Report and on the Solar Group's website. Risk management is treated as a separate theme in the Annual Report, while a description of internal control can be found on [www.solar.eu](http://www.solar.eu).

## 5.2 Whistleblower scheme

### 5.2.1

#### Recommendation

The Committee recommends that the board of directors decide whether to establish a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.

#### Comment

A whistleblower scheme should have its roots in the audit committee.

#### Practice

Solar has established a whistleblower scheme in which employees as well as other stakeholders can report irregularities confidentially. Reportings from the whistleblower scheme are sent to the Audit Committee on an ongoing basis.

## 5.3 Contact to auditor

### 5.3.1

#### Recommendation

The Committee recommends that the board of directors ensure regular dialogue and exchange of information between the auditor and the board of directors, including that the board of directors and the audit committee at least once a year meet with the auditor without the executive board present. This also applies to the internal auditor, if any.

#### Practice

In the long-form audit report, the auditor reports the extent and result of the work performed on an ongoing basis. The long-form audit report is presented at every Board of Directors' meeting for discussion and approval. The auditor participates in the Board of Directors' meeting at which the Annual Report is approved. In addition, the auditor participates in Board of Directors' meetings when necessary.

The Audit Committee meets once a year with the external auditor and Internal Audit, respectively, without the presence of the Executive Board.

### 5.3.2

#### Recommendation

The Committee recommends that the audit agreement and auditors' fee be agreed between the board of directors and the auditor on the basis of a recommendation from the audit committee.

#### Practice

The Audit Committee negotiates an annual audit agreement with the auditor. The audit agreement is submitted for approval at the Board of Directors' meeting.

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