

Solar A/S

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# Corporate governance 2018



*stronger together*

# Corporate governance 2018

Solar considers that The Committee on Corporate Governance in Denmark's 2017 recommendations 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 2017.

## Practice

Solar A/S' corporate governance practice adopted by Solar's Board of Directors on 6 February 2019.

1

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.

The company's management must 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 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 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 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, a policy for the company's relationship with its investors and a tax policy.

#### 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.

#### Comment

Interim announcements are not quarterly reports and are not regarded as fulfilling the recommendation. Regular information to the market concerning the company's situation generates openness and transparency in relation to investors and other stakeholders. Quarterly reports are an essential tool for ensuring this.

#### 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 shareholders have the opportunity to participate, including voting without physical attendance at the general meeting. Considerations should address the possibility of holding the general meeting electronically, wholly or in part. The shareholders will then be in a position to influence the company's management 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 as well as submitting proxies and voting. Until further notice, the Board of Directors has decided to hold general meetings solely by physical attendance. The annual general meeting has been available to the company's shareholders via webcast on the Investor Portal since 2016.

### 1.2.2

#### Recommendation

The Committee recommends that proxies or votes by post for the general meeting allow shareholders to consider each individual item on the agenda.

#### Practice

By submitting proxies or votes by post, 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 that may be associated with value creation in the company, 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 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 other members on 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. 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 16.0% of share capital and 58.1% of votes as at 31 December 2018, 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 as well as capital increases and reductions.

### 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 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.

#### 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.

## 2.2 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

The Board of Directors have adopted a policy on corporate social responsibility, and Solar has been signed up for the United Nations' Global Compact programme since 2009. Solar has set up a CO2 consumption reporting system and has signed up for the Carbon Disclosure Project. Furthermore, 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 that, if the board of directors, in exceptional cases, asks the chairman of the board of directors or other board members to perform special activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect should be passed to ensure that the board of directors maintains its independent, general management and control function. Resolutions on the chairman's or other board members' participation in day-to-day management and the expected duration hereof should be publicly announced.

#### Comment

An adequate 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 whereby the chairman or other board members undertake special tasks should include provisions on the special precautions taken to protect the distribution of roles and responsibilities in the board of directors and between the board of directors and the executive board.

#### Practice

The chairman or other board members do 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 or other board members 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 evaluate and in the management commentary, account 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 in the management commentary and 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 board of directors annually discuss the company's activities to ensure relevant diversity at management levels and prepare and adopt a policy on diversity. The policy should be published on the company's website.

#### Comment

Diversity includes among other things age, international experience and gender. A policy on diversity should concern matters relevant to the company in relation to diversity and which promote a relevant degree of diversity, strengthen management's qualifications and competencies and consider the future development of the company.

**Practice**

The company wants diversity, among other things, in relation to gender and age at all levels in the company, and diversity is included as a parameter when hiring and promoting employees. At group level, we also want diversity in relation to the nationalities that make up the company. The company first and foremost prioritises professional and human competences, but has adopted a diversity policy for management functions in Solar. Among other things, the policy contains a target of the underrepresented gender making up 40% of the board following Solar's annual general meeting in 2019.

Furthermore, the policy includes a target of the underrepresented gender making up a total of 25% of the upper management level before the end of 2018. The upper management level is defined as Solar Group Management (SGM) and senior managers, e.g. vice presidents or directors, who report to a member of the SGM.

**3.1.3****Recommendation**

The Committee recommends that the selection and nomination of candidates for the board of directors be carried out through a careful and transparent process approved by the board of directors. When assessing its composition and nominating new candidates, the board of directors should in addition to the need for competencies and qualifications take into consideration the need for integration of new talent and diversity.

**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.

**3.1.4****Recommendation**

The Committee recommends that the notice convening a general meeting where the agenda includes the election of members to the board of directors, include (in addition to the statutory requirements) a description of the qualifications of the nominated candidates, including information about the candidates'

- other executive functions, including positions on executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign enterprises, and
- demanding organisational tasks.

Furthermore, it should be indicated if the 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, industrial experience, diversity (e.g. age, international experience and gender), educational background or other qualities that the board of directors deems to be paramount to be represented on the board of directors. The nomination to the general meeting on the composition of the board of directors should be drawn up in light of this.

**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.

**3.1.5****Recommendation**

The Committee recommends that members of the company's executive board be not members of the board of directors and that a resigning chief executive officer be not directly elected as chairman or vice chairman for the same company.

**Comment**

Proper division of responsibilities as well as independence should be ensured between the board of directors and executive board, and similarly, it should be ensured that the new chief executive officer is able to act independently of the previous chief executive officer.

**Practice**

The Fund of 20<sup>th</sup> December nominates candidates for Solar's Board of Directors and herewith ensures that members of the company's Executive Board are not nominated as candidates for the Board of Directors.

**3.1.6****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.

Even if a member of the board of directors is not covered by the above criteria, certain conditions may exist that will lead the board of directors to decide that one or more members cannot be regarded as independent.

#### 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.

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

If the board of directors determines that several members of the board of directors are associated with shareholders with significant influence, the board of directors should consider whether its composition is satisfactory in relation to independence. It is the opinion of the Committee that an indication of significant influence is when a shareholder holds more than 20% of the voting rights.

Cross-management representation is seen, for example, where a member of the board of directors in company A is a member of the executive board in company B while, at the same time, 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 when a member of the board of directors has significant relations to 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 assess the expected time commitment for each function so that the member does not take on more functions than he/she can complete at a satisfactory level for the company.

#### Comment

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

#### 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 person in question,
- the person's competencies and qualifications that are relevant to the company
- whether the member is considered independent,
- the member's date of appointment to the board of directors,
- expiry of the current election term,
- the member's participation in the meetings of the board of directors and committee meetings,
- other management functions, including memberships in executive boards, boards of directors, and supervisory boards, including board committees in Danish and foreign enterprises and demanding organisational tasks, and
- the number of shares, options, warrants and similar owned by the member in the company, and other group companies, as well as changes to the member's portfolio of the mentioned securities which have occurred during the financial year.

#### Comment

Participation in meetings of the board of directors and committee meetings promote a necessary and constructive debate, and information on member participation in such meetings is therefore relevant information. Physical participation should be the norm, however participation via digital media is also regarded as participation.

#### 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. Information about the number of Solar and consolidated company shares held by members of the Board of Directors as well as the changes that have taken place during the financial year is provided in the Annual Report.

Furthermore, the Annual Report contains information about how many board and committee meetings the individual member has participated in, 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.

### 3.3.3

#### Recommendation

The committee recommends that the annual evaluation procedure, cf. section 3.5, include an evaluation of what is regarded as a reasonable level for the number of other management functions, where the number, level and complexity of the other individual management functions are taken into account.

#### Comment

Annually, the Board of Directors must carry out a specific and individual evaluation of what would be regarded as a reasonable level in the number of other management functions for the individual members. The evaluation of other management functions must include the individual function's magnitude and scope.

#### Practice

This recommendation is not followed, as the Board of Directors finds that the individual board member is best at evaluating what is a reasonable level for the number of other management functions in relation to the resources and competences available to the board member. The company expects and assures that board members have the necessary time to prepare for and participate in the board's work.

## 3.4 Board committees

Board committees can contribute towards efficiency and improving the quality of the work performed by the board of directors. Board committees are committees established by the board of directors.

The sole purpose of establishing a board committee is to carry out preparatory work prior to processing in the board of directors, and it may not cause significant information that is required by all members of the board of directors to only be communicated to the board committee, or that the necessary processing 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 audit, nomination and remuneration committees. This may help obtain better exploitation of the special competencies that may be present in 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 but 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. The recommendations do not include ad hoc committees.

#### 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

To the extent that the present necessary competences are available, we strive for a majority of independent board members in the board committee. The majority of members in the remuneration committee are independent, while one of the three audit committee members is independent.

### 3.4.3

#### Recommendation

The Committee recommends that the members of the board of directors set up an audit committee and that a chairman is appointed who is not the chairman of the board of directors.

#### Comment

The audit committee should only consist of members of the board of directors and not external parties, as these parties do not have the same insight into company matters and are not necessarily subject to the same responsibility as members of the board of directors.

#### 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 consists of members of the Board of Directors so that it 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 function and, in such case, presents mandates and recommendations on selecting, appointing and removing the head of any internal audit function and on the budget of the internal audit function,
- ensure that if an internal audit has been established, a description of its functions is available and approved by the board of directors,
- ensure that if an internal audit has been established, adequate resources and competencies are allocated to carry out the work, and
- monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function.

#### Comment

If a decision is made to establish an internal audit function, the board of directors may choose to outsource the task. The party in question will carry out the internal audit and refer to the board of directors, the audit committee or the internal audit function.

#### 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 the 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, which is at least, responsible for the following preparatory tasks:

- describing the qualifications required by the board of directors and the executive board and for a given position, indicating the time expected to be spent on carrying out a specific position, as well as assessing the competencies, knowledge and experience found in the two governing bodies,
- annually assessing the structure, size, composition and results of the board of directors and the executive board, and recommend any changes to the board of directors,
- annually assessing the competencies, knowledge, experience and succession of the individual members of management, and report to the board of directors in this respect,
- recommending candidates for the board of directors and the executive board, and
- proposing an action plan to the board of directors and the executive board 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, which is at least, responsible for the following preparatory tasks:

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

#### Comment

Consider getting external assistance in the preparation of the incentive pay scheme

#### 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 establishes an evaluation procedure for an annual evaluation of the board of directors and the individual members. External assistance should be obtained at least every third year. The evaluation should *inter alia* include:

- contribution and results,
- cooperation with the executive board,
- the chairman's leadership of the board of directors,
- the composition of the board of directors (including competencies, diversity and the number of members),
- the work in the committees and the committee structure, and
- the organisation and quality of the material that is submitted to the board of directors.

The evaluation procedure and the general conclusions should be described in the management commentary and on the company's website. The chairman should account for the evaluation of the board of directors, including the process and general conclusions, on the general meeting prior to the election of the board of directors.

##### Comment

The evaluation of the individual member could be carried out as an assessment that is carried out by the other members and members of the executive board.

The evaluation is followed up with an annual interview between the chairman and the individual member. If no external assistance has been used, 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 annual evaluation of its composition and ensure integration of new talent, while maintaining continuity. The 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 leadership of the board's work. The evaluation is based on a number of questions covering all subjects included in the board's work. The questions are the same every year in order to detect trends and are rarely changed. The Board of Directors finds that the repetitive format is preferable rather than occasional external assistance. 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 evaluation procedure and overall conclusions are described in the annual report and at [www.solar.eu](http://www.solar.eu).

#### 3.5.2

##### Recommendation

The Committee recommends that at least once annually, the board of directors evaluate the work and performance of the executive board in accordance with pre-defined criteria. Furthermore, the board of directors should evaluate the need for changes to the structure and composition of the executive board, in light of the company's strategy.

##### 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. At the same time, it is assessed whether there is a need for changes to the structure or composition of the executive board.

#### 3.5.3

##### 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 of 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 management 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 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, are at a reasonable level and reflect management's performance, responsibilities and value creation for the company.

The variable component of the remuneration (the incentive-based 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.

The board of directors should consider the need to include external consultants in relation to the preparation of the remuneration policy and its implementation.

Information on management remuneration should be compiled in a remuneration report.

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.

Solar consults external advisors in relation to remuneration when deemed appropriate.

## 4.1 Form and content of the remuneration policy

### 4.1.1

#### Recommendation

The Committee recommends that the board of directors prepare a remuneration policy for the board of directors and the executive board, which includes

- 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,
- a description of the criteria that form the basis for the balance between the individual components of the remuneration, and
- an explanation for the correlation between the remuneration policy and the company's long-term value creation and relevant related goals.

The remuneration policy should be approved by the general meeting at least every fourth year and upon any material amendments and published on the company's website.

#### Comment

The remuneration policy comprises fixed emoluments as well as incentive-based pay schemes. Once approved by the general meeting, the remuneration policy, including the "General Guidelines for incentive-based Remuneration" laid down in section 139 of the Companies Act, is only to be approved again by the general meeting, if the policy or the general guidelines adopted for incentive-based remuneration are amended, although at least every fourth year.

#### 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.

The remuneration committee 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 and will at least every four years or in case of any significant changes be treated at Solar's annual 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 composition be ensured between remuneration for members of management and the value creation for shareholders in the short and long term,
- clarity be established about performance criteria and measurability for the award of variable components,
- it is ensured that variable remuneration not only consists of short term remuneration components, and that long-term remuneration components must have a vesting or maturity period of at least three years, and
- it be ensured that the company has the ability to reclaim, in full or in part, variable components of remuneration that were paid on the basis of

information, which subsequently are found to be incorrect.

##### 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 or restricted shares is not performance-related. Share-based incentives have a vesting period/maturity period of three years.

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 or warrants.

##### 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, in relation to long-term incentive programmes, a share-based remuneration is used, the programmes should have a vesting or maturity period of at least three years after being allocated and should be roll-over programmes, i.e. the options should be granted periodically.

##### Comment

A vesting or maturity period of at least three years after allocation should ensure consistency between the share-based remuneration and the long-term value creation for the company. Apart from the vesting period, there may also be a maturity period before payment.

##### 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 and the allocation of restricted share units are described in Solar's Annual Report. Among other things, it is stipulated in the terms that, in connection with measuring the share option or allocation of restricted shares, 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 for share options is the price used at measurement. Restricted share units are allocated free of charge

#### 4.1.5

##### **Recommendation**

The Committee recommends that the total value of the remuneration relating to the notice period, including severance pay, do not exceed two years of remuneration, including all components of the 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 remuneration

### 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.

##### **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. Resignation arrangements cover a wide area, including period of notice and qualification, severance pay, "change of control" agreements, insurance and pension schemes, payment of pension contributions after resignation, etc.

##### **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 company prepares a remuneration report that includes information on the total remuneration received by each member of the board of directors and the executive board from the company and other companies in the group and associated companies for the last three years, including information on the most important content of retention and resignation arrangements and that the correlation between the remuneration and company strategy and relevant related goals be explained.

The remuneration report should be published on the company's website.

##### **Practice**

Solar does not prepare remuneration reports. The remunerations/fees of the individual members of the Executive Board and the Board of Directors are included in the annual report, just as the company has prepared and published a remuneration policy. Solar assesses that resources spent on preparing an annual remuneration report can create better value elsewhere to the benefit of the company and its shareholders.

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.

#### 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 establish a whistleblower scheme for expedient and confidential notification of serious wrongdoing or suspicions thereof.

#### **Comment**

A whistleblower scheme should be anchored in the board of directors, possibly through 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 Board of Directors via 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 elected by the general meeting and the board of directors, including that the board of directors and the audit committee meet with the auditor elected by the general meeting at least once annually without the executive board present. This also applies to the internal auditor, if any.

#### **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 auditor elected by the general meeting and Internal Audit, respectively, without the presence of the Executive Board.

### 5.3.2

#### **Recommendation**

The Committee recommends that the audit agreement and auditor's fee be agreed by the board of directors and the auditor elected by the general meeting based on a recommendation from the audit committee.

#### **Practice**

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

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