

Statutory report on
corporate governance 2014,
cf. § 107b of the Danish
Financial Statements Act



stronger together

The statutory report on corporate governance, cf. § 107 b of the Danish Financial Statements Act, is part of the management review in Annual Report 2014 and covers the financial period from 1 January – 31 December 2014.

Solar's management

The Board of Directors and the Executive Board are responsible for the overall and strategic management of the Solar Group. The Board of Directors is made up of six members elected by the general meeting and three employee-elected members.

At the annual general meeting in 2014, Peter Falkenham did not wish to run for re-election for the Board of Directors. Elected was Ulf Gundemark.

The board members Ulf Gundemark, Agnete Raaschou-Nielsen, Jens Peter Toft and Steen Weirsøe are independent of Solar pursuant to the definition in the Danish corporate governance recommendations. Furthermore, the Board of Directors consists of Jens Borum and Niels Borum and the three employee-elected members Lars Lange Andersen, Ulrik Damgaard and Bent Frisk.

A description of the competences of the Board of Directors can be found on Solar's website www.solar.eu, and in Annual Report and on the website, Solar informs, among other things, of the board members' special competences, managerial offices, age, independence, remuneration, number of shares and the changes made to number of shares during the year.

The Executive Board consists of CEO Anders Willhjelm and CFO Michael H. Jeppesen. Our Annual Report and website contain information about the individual Executive Board members' age, managerial offices, total remuneration, number of shares and options and the changes made to number of shares and options during the year.

Activities

A minimum of six ordinary board meetings as well as one conference for the Board of Directors will be held each year. In 2014, we had six board meetings and one conference for the Board of Directors.

Audit Committee

The Audit Committee consists of three members elected by the Board of Directors among its members. In 2014, the Board of Directors re-elected Jens Peter Toft and Jens Borum as members of the Audit Committee. Agnete Raaschou-Nielsen was elected for the Audit Committee. Jens Peter Toft is chairman of the Audit Committee and has special accounting qualifications.

The Audit Committee's most important tasks are:

- To monitor financial information in the annual and quarterly reports and assess information disclosed.
- To review and assess Solar's internal control and risk management procedures.
- To recommend an external auditor for election by the Board of Directors.

The Audit Committee held six meetings in 2014. Six meetings are also planned for 2015.

Evaluation

The chairman is in charge of the evaluation of the Board of Directors' work by means of a questionnaire survey. The purpose is to assess whether the overall skills of the Board of Directors match the company's current needs, the quality of material distributed to the board and the holding of the meetings themselves as well as the relevance of issues discussed as regards legal requirements, risk factors and the company's development potential. Based on previous years' evaluations, we assessed that the Board of Directors needed more members with experience from our line of business. Thus, we have strengthened this part. The 2014 evaluation has not given rise to the introduction of additional measures.

Corporate governance

Solar considers that The Committee on Corporate Governance in Denmark's 2013 recommendations are, in general, a valuable tool for exercising sound management, good transparency for shareholders and other stakeholders, and efficient risk management (see <http://corporategovernance.dk/anbefalinger>). Overall, Solar therefore complies with the recommendations wherever they are relevant to the company.

Back in 2013, the Board of Directors adopted a diversity policy which includes a stated objective of the composition of the Board of Directors. Solar wants its board to be as diversely composed as possible, including an as equal as possible representation of the two genders, while still ensuring that the board represents the required skills on the whole.

Our objective is for no gender to be underrepresented on the Board of Directors after Solar's annual general meeting in 2017. Consequently, women must make up 40% of the board mem-

bers elected by the annual general meeting, which is deemed a fair distribution by law. Currently, women make up 20% of Solar's board members elected by the annual general meeting, which is the same as last year.

With this in mind, Solar complies with 43 of 47 recommendations but deviate from:

Recommendation on nomination of candidates for the Board of Directors

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 Fund of 20th December, which is a majority shareholder and submits proposals for the composition of the Board of Directors, attaches importance to board members representing relevant skills in relation to the company's own skills and the needs described by the Board of Directors.

Recommendation on fixing an age limit for board members

The age of the members of the Board of Directors is listed in Solar's annual report. Solar wishes to promote age diversity on the Board of Directors but has no fixed retirement age for individual members. As Solar believes that skills are more important than age, there is no fixed retirement age for board members.

Recommendation on establishment of a nomination committee

The Fund of 20th December, the majority shareholder, makes proposals for the composition of the Board of Directors. Due to this ownership structure with a majority shareholder, Solar has not established a permanent nomination committee tasked with nominating members of the Board of Directors. However, every year, the board 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.

Recommendation on establishment of a remuneration committee

Solar has not established a remuneration committee in that the remuneration policy, including general guidelines for performance-related remuneration of the Executive Board, aims at being so simple that it can appropriately be assessed and determined by the full board. Negotiations concerning changes to the remuneration of the Executive Board are jointly conducted by the chairman and vice-chairman according to a mandate from the Board of Directors.

A full description of Solar's opinion on the individual items of the corporate governance recommendations is available at www.solar.eu/menu/investor/corporate+governance.

Risk management

Solar's risk management system consists of policies and procedures approved by the Board of Directors. The overall purpose is to manage all major business risks and risk correlations across the organisation or value chain.

Risk management is based on Enterprise Risk Management (ERM) and was established to enable Solar to run a sturdy business that can react quickly and flexibly when conditions change.

In 2014, we have initiated a process in order to raise this area further with an eye to establishing actual Risk Management Boards in the respective subsidiaries in our main markets as well as Poland.

We analyse which specific risks concern the individual subsidiary and which risks apply across borders.

Risk management is in line with corporate governance principles.

The group's risk management system is based on the Board of Directors' rules of procedure which place the responsibility for any risk management with the Executive Board.

The Executive Board must ensure that the necessary risk management policies and procedures are available, that efficient risk management systems have been established for all relevant areas and that these are improved continuously.

Risk management reporting is made to the Audit Committee once a year. In addition, group management will conduct ongoing follow-ups with the subsidiaries.

The individual risks are described in Solar's Annual Report 2014, which can be found on www.solar.eu.

Internal control

Internal control of financial reporting

Internal control systems are designed for reporting in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements for annual reports of listed companies. The system contributes to Solar's financial statements, providing fair presentations without material misstatements.

In addition, the systems were established to ensure that Solar

enterprises choose and apply appropriate accounting policies, and accounting estimates that are reasonable under the circumstances.

These systems only provide reasonable, and not absolute, certainty that material errors and irregularities in the financial reporting processes are detected and corrected.

The internal control systems for financial reporting may be described within the following framework:

Control environment

In line with Solar joining the UN's Global Compact, we have implemented a business-ethical Code of Conduct that all employees must comply with.

Rules of procedure for the Board of Directors and the Executive Board are in place, and the Board of Directors has set up an Audit Committee in keeping with EU legislation.

Responsibilities and authority within key areas are defined in policies approved by the Board of Directors and/or the Executive Board. These include our communications policy, liquidity and financial policies, fraud policy, risk policy, tax policy etc. Solar's Internal Audit is seeing that these policies are adhered to.

Internal Audit is an independent department tasked with reviewing financial information in quarterly and annual reports and performing operational audits of business procedures and internal control. Internal Audit reports the results of these reviews directly to the Board of Directors and the Audit Committee, including any recommendations for improving internal controls. Accounting rules and procedures are set out in an accounting handbook, which is available to all employees working within finance. Internal Audit oversees that these rules and procedures are observed.

The Executive Board is represented on all our subsidiaries' boards of directors which again brings control into focus throughout the group.

Solar has a whistleblower initiative available to employees, customers, suppliers and other. This information system allows

employees and others to report breaches or suspected breaches of our Code of Conduct confidentially.

Control activities

The purpose of control activities is to prevent, uncover and correct any errors and irregularities. These activities are integrated into Solar's accounting and reporting procedures. Activities include documentation procedures, authorisation, approval, reconciliation, result analysis, separation of irreconcilable functions, IT application controls and general IT controls.

Information and reporting

Solar's IT policy and built-in IT controls as well as general controls help to ensure a fair presentation of financial reporting. Accounting handbooks and reporting instructions – including estimate and monthly closure procedures – are updated and implemented throughout the group on an ongoing basis. As with other policies relevant to internal control of financial reporting, these are available to the relevant persons.

Monitoring the accounting process

Solar applies uniform IFRS-based rules as stated in the company's accounting handbook. This handbook covers accounting and assessment principles, reporting instructions as well as risk management and control procedures and must be observed in detail by all group enterprises. Observance of the accounting handbook is monitored continuously.

Control weaknesses identified by Solar's Internal Audit and by the group's auditors are submitted to the Audit Committee which monitors that management implements the necessary measures to remedy these weaknesses on a timely basis.

Comprehensive monthly accounting data is reported from all group subsidiaries. Such data is then analysed and monitored at group, company and other operational levels.

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