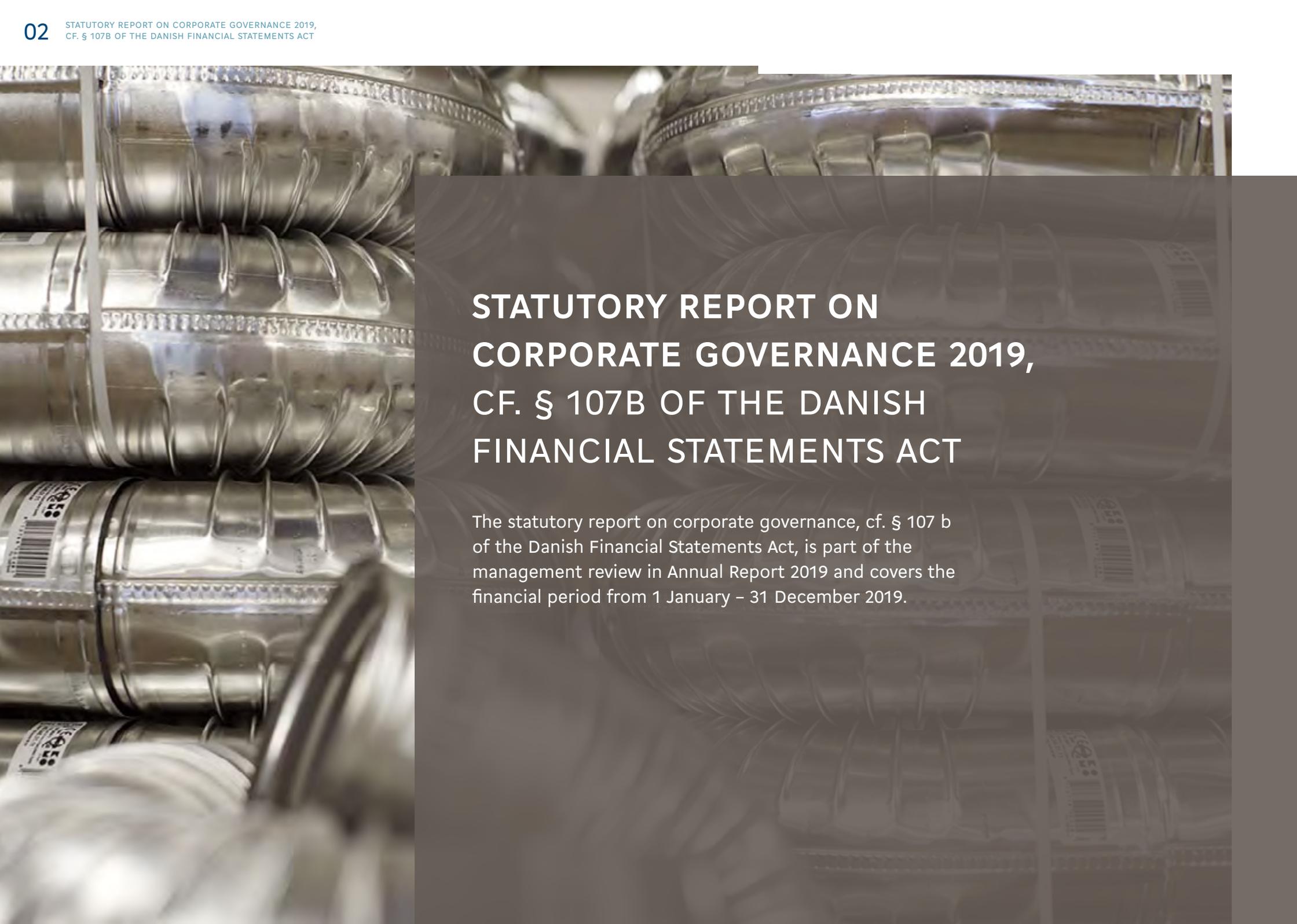


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STATUTORY REPORT ON CORPORATE GOVERNANCE 2019, CF. § 107B OF THE DANISH FINANCIAL STATEMENTS ACT



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STATUTORY REPORT ON CORPORATE GOVERNANCE 2019, CF. § 107B OF THE DANISH FINANCIAL STATEMENTS ACT

The statutory report on corporate governance, cf. § 107 b of the Danish Financial Statements Act, is part of the management review in Annual Report 2019 and covers the financial period from 1 January – 31 December 2019.

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.

Ulf Gundemark were not renominated for election at the Annual General Meeting in 2019. Newly elected for the Board of Directors was Morten Chrone.

The board members Peter Bang, Morten Chrone, Louise Knauer and Jens Peter Toft are independent of Solar pursuant to the definition in the Danish corporate governance recommendations. Furthermore, the Board of Directors consists of Jens Borum, Jesper Dalsgaard, 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 in Solar and consolidated companies as well as the changes made to number of shares during the year.

The Executive Board consists of CEO Jens E. Andersen, CCO Hugo Dorph, 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, restricted shares and options and the changes made to number of shares, restricted 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 2019, 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 March 2019, the Board of Directors re-elected Jens Peter Toft, while Peter Bang and Louise Knauer succeeded Jens Borum and Jesper Dalsgaard on the Audit Committee. Jens Peter Toft is chairman of the Audit Committee and has special accounting qualifications just like Peter Bang.

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 2019. Six meetings are also planned for 2020.

Remuneration Committee

The Remuneration Committee has three members, who were elected by the Board of Directors among its members. In March 2019, the Board of Directors re-elected Jens Borum and Jens Peter Toft, while Louise Knauer succeeded Ulf Gundemark on the Remuneration Committee. Jens Borum is chairman of the committee.

The Remuneration Committee's most important tasks in relation to the Board of Directors are:

- To make recommendations for suggestions to the remuneration policy and general guidelines for incentive-based remuneration for the Executive Board.
- To suggest remuneration for the Executive Board, including ensuring that the remuneration is in agreement with the remuneration policy and the Executive Board's performance assessment.
- To monitor that information about the Board of Directors' and Executive Board's remuneration in the annual report is correct, accurate and complete.

The Remuneration Committee held 1 meeting in 2019. 1 meeting is planned for 2020.

Nomination Committee

The Board of Directors has decided to create a forum for dialogue with large shareholders about the future composition of the board, and thus, they have established a set of terms of reference, determining the guidelines for this. Representatives from two of the company's large shareholders and the company's principal shareholder, The Fund of 20th December, will form a committee together with the chairman of the Board of Directors and put forward proposals for both re-election and election of members for the Board of Directors.

The committee is to perform a number of preparatory tasks to make sure that the Board of Directors at any time meets the guidelines laid down by the Board of Directors. Emphasis is placed on the members representing relevant competences in relation to the company's needs, and the aim is to constantly ensure a balance between continuity and renewal of the Board of Directors.

It is not a board committee in the same sense as the audit committee and the remuneration committee, and the Board of Directors' tasks in relation to the composition of the board has not changed after the establishment of the committee.

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. The 2019 evaluation was shared with the Nomination Committee and has not given rise to the introduction of additional measures.

Corporate governance

In general, Solar considers the 2017 recommendations of the Danish Committee on Corporate Governance a valuable tool for exercising sound management, good transparency for shareholders and other stakeholders, and efficient risk management (see <https://corporategovernance.dk/recommendations-corporate-governance>). 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.

At the annual general meeting in 2019, board member Ulf Gundemark resigned, and we did not succeed in recruiting a female board member with the desired insight into the trade. Consequently, Solar has changed the time frame for not having underrepresented gender on the Board of Directors after the annual general meeting in 2019 to after the annual general meeting in 2023. Solar still has an objective for women to make up 40% of the board members elected at the annual general meeting, which according to the law is considered an even distribution. When replacing any board members in the period until 2023, Solar will, as mentioned above, continue to weight diversity in consideration of the Board of Directors having the necessary competences overall. 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 45 of 47 recommendations but deviates from:

Recommendation on the procedure for evaluating the board of directors

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.

Recommendation on preparation of a remuneration report
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.

The annual report contains information on remuneration of the individual members of the Board of Directors and the Executive Board, including a description of the correlation with the remuneration policy.

Furthermore, the annual report includes information on retention and resignation schemes for the Executive Board. The company does not have pension obligations towards the Executive Board.

As EU's shareholder rights directive has now been implemented into Danish legislation, Solar will draw up a remuneration report for 2020, which will be presented at the annual general meeting in 2021.

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

The national management teams of the individual Solar Group companies take a structured approach to risk management, ensuring that we have an updated risk overview at all times. This data is consolidated at group level, and the findings presented to the Board of Directors for approval.

So, 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. In addition, group management will conduct ongoing follow-ups with the subsidiaries.

The individual risks are described in Solar's Annual Report 2019, which can be found at 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

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. Significant 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.

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.

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.

Internal control

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 external 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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