



## RISK MANAGEMENT

### EXPOSURE TO POTENTIAL TOP RISKS AND MITIGATION

One of the risks reported last year - change of warehouse management system (DK, NO, NL) - is no longer a risk as the SAP eWM system was successfully implemented in Solar Denmark, Solar Norge and Solar Nederland.

	 <b>CYBERATTACK</b>	 <b>IT INTERRUPTIONS</b>
<b>Risk</b>	The risk is unchanged.	The risk is unchanged.
<b>Scenario</b>	Risk of IT breakdown and/or data breach due to cyberattack.	Risk of business interruption due to unforeseen but inherent events affecting IT operations such as fire, power outage, network or system failure, and other natural or unintentional man-made adversities.
<b>Impact</b>	Business interruptions in the shape of data compromise, denial of service, intellectual property theft and regulatory consequences are among the repercussions of various cyber incidents, ultimately leading to financial losses and an inability to run daily operations. The probability of the worst-case scenario is medium, but the potential impact is assessed as high.	Potential IT interruptions may have a significant impact on earnings and reputation, depending on the nature and scale of the event. However, the probability of the worst-case scenario is between low and medium, but the potential impact is assessed as between medium and high.
<b>Mitigation</b>	Mitigation efforts concentrate on strengthening cyber resilience. This includes monitoring the network for unusual behaviour as well as providing new security tools or upgrading existing ones. Ongoing activities related to network safety aim to minimise the damage from a potential attack. During 2020, Solar's "crown jewels" (the most critical systems) were identified to facilitate proactive protection by implementing controls to safeguard them. Additional efforts focus on the impact analysis of business activities, which supports developing better business continuity and disaster recovery planning – these activities will secure readiness and clarity of priorities within IT and business during a potential interruption. Group IT continues to communicate appropriate internal information about IT security to maintain organisational awareness.	The IT area is continuously monitored and evaluated. Business-critical applications are mirrored at two central data centres in order to safeguard IT operations, so that the business can continue to run if one centre experiences downtime. Mitigation efforts planned to reduce the risk of cyberattacks – such as increasing network security and developing better business continuity plans – will simultaneously reduce the risk of losing the stability of digital operations.

## RISK MANAGEMENT

### Risk

#### **C** MARKET VOLATILITY

This risk has been added to the list of top group risks this year.

#### **D** WAREHOUSE OPERATIONS

This risk has been added to the list of top group risks this year.

#### **E** CREDIT MANAGEMENT

This risk has been added to the list of top group risks this year.

### Scenario

Risk of adverse market conditions and multiple unwanted events due to the pandemic.

Risk of business interruption in one or more central warehouses due to strict safety regulations and/or increased staff absence caused by COVID-19.

Risk of negative financial consequences due to extending credit to customers.

### Impact

Rapid changes caused by the pandemic, the authorities' interference in the business sector as well as the dynamics of the regulatory environment may influence the digital transformation and challenge the flexibility of our business model. The probability of the worst-case scenario is assessed as between low and medium, but its impact is assessed as high.

The risk relates to a very dynamic spread of the pandemic leading to inevitable consequences, such as strict safety regulations during lockdown and/or increased staff absence. When absence in the warehouse grows visibly or when Solar companies need to reduce staff attendance in warehouses because of new regulations, it may have a visible impact on customer deliveries. The probability as well as the potential impact of the worst-case scenario is assessed as between low and medium.

Extending credit to customers is regarded as a natural and important element in Solar's business operations. If a negative market cycle occurs, then the credit risk will increase - the pandemic fallout may raise the likelihood of the risk, in particular when government support packages are withdrawn. The probability as well as the potential impact of the worst-case scenario is assessed as close to medium.




### Mitigation

In the first two quarters of 2020, Solar Group and its subsidiaries established a governance model supplemented by scenario analyses and high-level recommendations on how to act in certain circumstances. With the appointed response teams at corporate, local and business area levels, Solar adopted a number of preventative activities focused on the safety of employees, customers and suppliers. Detailed mitigation plans aligned with probable scenarios were implemented and regularly updated. The way Solar handled the pandemic fallout in Q1 and Q2 2020 by adopting quickly to market conditions gives confidence that the company can react quickly and appropriately if the situation recurs.

Solar regularly monitors the impact of the pandemic on local markets and follows recommendations of health organisations or local authorities in order to protect all employees and those of third parties. An extensive contingency plan for warehouse staff was created in March and is regularly upgraded to support the management of the consequences of the pandemic and to secure business continuity. It includes i.e. zoning procedures and equipment, strict hygiene rules, detailed capacity planning, protection of key employees as well as guidelines on how to act if any disease has been detected. The flexible remediation plan and a wide range of preventative actions continue to keep the risk within the appetite for risk.

Solar conducts efficient credit management at all times and monitors the development of credit risk. In March, the credit policy was tightened due to the COVID-19 pandemic. Furthermore, we have taken out insurance to hedge against potential losses on trade receivables. In addition, uninsured trade receivables are generally spread across a large number of small customers. Impacts from COVID-19 have increased risks on trade receivables.

## RISK MANAGEMENT

Risk	 <b>CUSTOMER MIGRATION TO NEW WEBSHOP</b>	 <b>NEW ENTRANTS IN THE MARKET</b>	 <b>CENTRAL WAREHOUSE BREAKDOWN</b>
Scenario	<p>The risk is reduced.</p> <p>Risk of customers' negative experience and failure to harvest expected benefits from new e-commerce platform</p>	<p>This risk has been added to the list of top group risks this year.</p> <p>Risk of new market players entering the market leading to increased competition and/or price pressure with a negative impact on Solar's business.</p>	<p>The risk is reduced.</p> <p>Risk of business interruption within central warehouse due to unforeseen but inherent events such as fire, power outage, flooding, and other natural or man-made adversities.</p>
Impact	<p>Failure to transfer customers successfully from the current platforms (webshop and mobile app) to the new ones as well as failure to meet customers' expectations concerning the company's digital solutions may affect the benefits assumed by Solar and lead to loss of competitiveness. The probability as well as the potential impact of the worst-case scenario is assessed as between low and medium.</p>	<p>The current commercial risk of strong new entrants in the market, which may result in reduced competitiveness, lost revenue and decreased earnings. However, the probability of the worst-case scenario is assessed as between low and medium with a potential impact assessed to be medium.</p>	<p>Unwanted events may potentially lead to partial or complete warehouse breakdown. Materialisation of this risk can result in financial losses as well as loss of reputation. Thanks to continuous progress in removing equipment failure from significant risk factors, the likelihood of a warehouse breakdown decreased compared to last year. The probability of the worst-case scenario is now assessed as remote, but potential impact is assessed as between medium and high.</p>
Mitigation	<p>Customers are invited to use the new platform on a regular basis. Ensuring the right market research model helps Solar to understand the needs and behaviour of customers who have migrated to the new platform. Enhanced reporting is distributed and promoted within the sales and commercial market organisations as a tool for analysing trends on a regular basis. Keeping the old webshop running remains an alternative for dissatisfied or non-migrated customers.</p>	<p>A dedicated cross-functional team is in place to monitor potential new players' strategies and/or recent market developments, as well as to understand customers' present and future buying criteria. Commercial market and sales organisations monitor this for early indicators. In accordance with observations and feedback, Solar continues to invest in digital tools and value adding services, which adapt to new trends.</p>	<p>Business contingency plan (BCP) is developed collaboratively in all central warehouse communities. It clarifies roles and responsibilities and describes actions required from staff in case of possible force majeure events. Additionally, Solar ensures regular audits of warehouses in order to verify the level of preventative and detectable security measures undertaken to protect the facilities.</p>