

## **Report by the Supervisory Board of Zumtobel Group AG on 21 June 2017 for the 2017/18 Financial Year**

Dear Shareholders,

The 2017/18 financial year was characterised by the disappointing operating development of the Zumtobel Group, by a loss of confidence on the part of key stakeholders like customers and the capital market and by a difficult environment in the industrial sector. It had become obvious that the status quo was no longer viable and significant changes and adjustments would be required to successfully position the Zumtobel Group for the future. The new Management Board, which was installed in spring 2018, has introduced numerous operating measures in recent months to stabilise the business and – with a substantially leaner management team – worked intensively on the development of a future-oriented strategy for the Zumtobel Group. All structures and corporate processes as well as business areas, markets, brands and product portfolios are analysed in an open discussion based on the underlying goal to strengthen the focus on customers while reducing complexity and costs. We are convinced that the fundamental organisational and strategic changes brought about by the current strategy development process will create a solid foundation for the Zumtobel Group's successful future.

We performed the duties required by law and the articles of association during the 2017/18 financial year by regularly monitoring the direction of the company by the Management Board and the management of Zumtobel Group AG. The Management Board provided us with comprehensive verbal and written reports on a regular and timely basis, which covered the general development of business and major events as well as the position of Zumtobel Group AG and the Zumtobel Group. Experts were invited to our meetings to provide detailed information on specific topics. Between the scheduled meetings, the Management Board supplied the Supervisory Board with regular reports on important individual subjects. The chairmen of the Management and Supervisory Boards also held a number of personal meetings. These activities allowed the Supervisory Board to meet its obligations in full.

The Supervisory Board of Zumtobel Group AG included the following four shareholder representatives as of 30 April 2018: Jürg Zumtobel, Fritz Zumtobel, Johannes Burtscher and Volkhard Hofmann. Rüdiger Kapitza resigned from the Supervisory Board for personal reasons as of 5 June 2017. Stephan Hutter and Hans-Peter Metzler resigned from the Supervisory Board, independent of each other, as of 31 January 2018 after more than seven years in office. Independent of these changes, the Supervisory Board, in its current composition, meets the requirements of the Austrian Stock Corporation Act and is not restricted in any way whatsoever in its actions or decision capacity. The Supervisory Board would like to thank its former members for their many years of service and wish them all the best for their personal and professional future.

### **Meetings of the Supervisory Board**

The Supervisory Board met nine times during the 2017/18 financial year, in four scheduled meetings and five unscheduled meetings. One member of the Supervisory Board was excused at one meetings and authorised Jürg Zumtobel to vote on his behalf.

The Supervisory Board meeting on 22 June 2017 focused, above all, on the 2016/17 separate financial statements and consolidated financial statements of Zumtobel Group AG. An M&A transaction (sale of International Lights Inc.) was also discussed, and a resolution on communications in advance of such transactions was approved.

The meeting on 22 September 2017 dealt with new elections for the members of the Committee for Management Board Matters and the members of the Strategy Committee following the resignation of Rüdiger Kapitza from the Supervisory Board. In addition, the appointment of Bernard Motzko to the Management Board Chief Operating Officer (COO) was discussed. Various reports by the Management Board and plans by the Management Board/transactions requiring the approval of the Supervisory Board (among others, for projects in Serbia and Les Andelys) were also considered.

The central topics of the Supervisory Board meeting on 17 November 2017 were issues involving the Management Board and the results of a workshop with the management of Zumtobel Group AG. Among others, reports by the Management Board to the Supervisory Board on results for the month of October and opportunities for cost savings in the Zumtobel Group AG were examined.

The unscheduled meeting on 19 December 2017 dealt with strategic issues (the future orientation of the company) as well as plans by the Management Board/transactions requiring the approval of the Supervisory Board.

The meeting on 26 January 2018 focused primarily on financial issues in the management report. Resolutions were also passed on recommendations made by the Management Board, and appointments to the corporate bodies of Zumtobel Lighting GmbH, Zumtobel Holding GmbH, Zumtobel Lighting Romania SRL and Zumtobel Licht AG were discussed and approved. Following the resignations of Stephan Hutter and Hans-Peter Metzler, new elections were held for a Supervisory Board vice-chairman and for the members of the Committees for Management Board Matters and Strategy. The appointment of Bernard Motzko to the Management Board of Zumtobel Group AG as of 1 February 2018 was also approved.

The unscheduled Supervisory Board meetings on 1 February 2018, 26 February 2018 and 8 March 2018 dealt with matters involving the Management Board.

The Supervisory Board meeting on 20 April 2018 dealt with status reports on the new orientation of the Zumtobel Group as well as status reports on the global plant network, the management report on the third quarter of 2017/18 and the budget for the 2018/19 financial year.

### **Audit Committee**

The Audit Committee met twice during 2017/18, with full attendance at both meetings.

The meeting on 22 June 2017 concentrated on the annual financial statements for 2016/17. The auditor of the consolidated and separate financial statements and company staff supplied the Audit Committee with detailed information on the consolidated financial statements and separate financial statements of Zumtobel Group AG as well as accounting processes and major accounting principles. Other reports (compliance management and data protection, risk management system, internal control system, internal audit, corporate governance and insider compliance) were discussed and accepted. A resolution for the appointment of the auditor for the 2017/18 financial year was approved and passed on to the Supervisory Board. The Management Board's recommendation for the distribution of profit was also approved.

The Audit Committee meeting on 26 January 2018 dealt with the six-month financial statements as of 31 October 2017, whereby the related reports by the auditor and corporate staff were accepted. The accounting process, the focal points of the review and selected accounting issues – e.g. the warranty provisions and an update to the goodwill impairment test – were examined in detail. The audit approach and focal points for the audits of the 2017/18 separate and consolidated financial statements were presented and explained by the auditor. Status reports on the internal control system, internal audit and compliance management in the Zumtobel Group were also presented and accepted. The effects of the Austrian Sustainability and Diversity Act on Zumtobel Group AG were discussed, and a denied party screening system to ensure that no deliveries are made to prohibited persons or companies was presented prior to implementation.

### **Committee for Management Board Matters**

The members of the Committee for Management Board Matters held numerous meetings and telephone conferences in 2017/18, which involved discussions and follow-up assessments of key topics. The most important issues handled during the reporting year were the changes on the Management Board and, as in previous years, its work as a so-called compensation committee, which takes decisions on the remuneration system and includes representatives of the Management Board, Supervisory Board and human resources department. Additional information can be found in the remuneration report. The compensation committee was also supported during 2017/18 by FehrAdvice & Partners AG, an independent consulting firm located in Zurich.

The committee conscientiously prepared and implemented the changes on the Management Board following numerous meetings and personal discussions. The changes during the 2017/18 financial year included the following: the appointment of Bernard Motzko as COO of the Zumtobel Group as of 1 February 2018; the separation from the CEO Ulrich Schumacher in February 2018; the appointment of Alfred Felder as acting president of the Management Board as of 1 February 2018 in addition to his duties as Chief Sales Officer and the appointment of Thomas Tschol as CFO of the Zumtobel Group as of 1 April 2018 to succeed Karin Sonnenmoser, who left the company by mutual agreement as of 9 March 2018. The Supervisory Board approved all of the committee's recommendations unanimously, and the changes on the Management Board were communicated through press releases and, if required by law, also as insider information pursuant to Article 17 MAR to the capital market and general public and internally to all employees.

In the search for a new COO and CFO, the Committee for Management Board Matters was supported by a well-known international consulting firm. Interviews for both positions were held with several candidates, who were selected from a larger number of applicants.

The Committee for Management Board Matters also served as a sounding board for the Management Board on issues related to the practical distribution of responsibilities among the Management Board members as well as communication issues related to the various restructuring projects and sensitive personnel decisions.

### **Strategy Committee**

The members of the Strategy Committee held several meetings and telephone conferences before and after the Supervisory Board meetings which dealt with a wide range of key strategic and cultural issues involving the Zumtobel Group. The most important issues accompanied by the Strategy Committee in 2017/18 concerned measures to generate organic and inorganic growth in the Zumtobel Group.

## Annual Financial Statements

The annual financial statements and the management report as well as the consolidated financial statements and the group management report of Zumtobel Group AG for the 2017/18 financial year, which were prepared by the Management Board, were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, and given unqualified opinions. After an extensive review and discussion of the separate financial statements of Zumtobel Group AG with the auditor at meetings of the Audit Committee and the Supervisory Board, which provided no grounds for reservation, the Supervisory Board stated its agreement with the management reports for the company and the Group pursuant to § 96 (1) of the Austrian Stock Corporation Act and approved the separate financial statements of Zumtobel Group AG. These financial statements are therefore considered finalised in accordance with § 96 (4) of the Austrian Stock Corporation Act. The Supervisory Board also approved the consolidated financial statements as well as the corporate governance report which were reviewed by the Audit Committee.

The Supervisory Board would like to thank the Management Board and the employees of Zumtobel Group AG and its member companies for their strong personal commitment during the past financial year.

We would also like to thank the shareholders of Zumtobel Group AG for their confidence.

For the Supervisory Board

Jürg Zumtobel  
Chairman of the Supervisory Board

Dornbirn, 26 June 2018