

**Report by the Supervisory Board  
of Zumtobel Group AG  
on 21 June 2017 for the 2016/17 Financial Year**

Dear Shareholders,

Previous efforts to improve the Zumtobel Group cost structures were clearly noticeable in 2016/17. Management has continued to pursue the reorientation that began three years ago and the related restructuring measures. Measures were introduced and implemented to improve the competitive capability of our global plant network. A further milestone was also set to position our business for the future with the formation of our new Zumtobel Group Services Division (ZGS), which bundles our expertise in the service area. We are convinced that these measures, in total, have created a solid foundation for the successful future of the Zumtobel Group.

We performed the duties required by law and the articles of association during the 2016/17 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 six shareholder representatives as of 30 April 2017: Jürg Zumtobel, Rüdiger Kapitza, Fritz Zumtobel, Hans-Peter Metzler, Johannes Burtscher and Stephan Hutter.

## **Meetings of the Supervisory Board**

The Supervisory Board met seven times during the 2016/17 financial year: in four scheduled meetings, one unscheduled meeting and two purely informative strategy meetings. One member of the Supervisory Board was excused at each of four meetings, and there was full attendance at all other meetings.

# zumtobel group

The Supervisory Board meeting on 10 June 2016 dealt with strategic issues related to the “Internet of Things“ and “Light as a Service“.

The Supervisory Board meeting on 21 June 2016 focused, above all, on the 2015/16 annual financial statements and consolidated financial statements of Zumtobel Group AG. After an extensive discussion of operating developments in the Zumtobel Group and its two segments (Lighting and Components) during the fourth quarter and the full 2015/16 financial year, the Supervisory Board agreed with the Audit Committee’s recommendations to approve the audited annual financial statements and the management report and to accept the consolidated financial statements, including the group management report. In this connection, the Management Board’s recommendation to distribute a dividend of EUR 0.20 per share was approved. The Supervisory Board also approved the report by the insider compliance officer and – based on a recommendation by the Audit Committee – a proposal to the annual general meeting for the election of KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, as the auditor of the separate and consolidated financial statements for the 2016/17 financial year. The Supervisory Board’s report to the annual general meeting was discussed and approved. Based on the results of a self-evaluation questionnaire, the efficiency of the Supervisory Board’s work and opportunities for improving its organisation and work processes were openly discussed.

The Supervisory Board on 23 September 2016 dealt with the management report and key financial data on the first quarter of 2016/17. In addition, Alfred Felder was recalled as the managing director of Tridonic GmbH as of 31 October 2016 and Guido von Tartwijk was appointed as his replacement as of 1 November 2016. The financial calendar for the 2017/18 financial year was also approved.

In a previously unscheduled meeting on 12 December 2016, the Supervisory Board approved the start of sales discussions for the French plant in Les Andelys with the investor ActiveInvest.

The Supervisory Board met in a closed conference on 16 December 2016 to discuss strategic issues related to the Zumtobel Group’s areas of business.

The main topics of the Supervisory Board meeting on 27 January 2017 included the management report on the first six months of 2016/17 and the outlook for the full financial year as well as status reports on various projects.

# zumtobel group

The central topics of the Supervisory Board meeting on 21 April 2017 included status reports on the production facilities in the global plant network, the management report on the third quarter of 2016/17, the budget for 2017/18 and the related medium-term planning for the financial years up to 2020/21. The Supervisory Board accepted the budget and the medium-term planning.

## **Audit Committee**

The Audit Committee met twice during 2016/17. One member was excused from the meeting on 21 June 2016, and there was full attendance at the meeting on 27 January 2017.

The meeting on 21 June 2016 concentrated on the annual financial statements for 2015/16. 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, 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 2016/17 financial year was approved and passed on to the Supervisory Board. The Management Board's recommendation for the distribution of profit was approved.

The Audit Committee meeting on 27 January 2017 dealt with the six-month financial statements as of 31 October 2016, 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 recognition of deferred taxes in the consolidated financial statements and the expected effects of the amendment to Austrian accounting regulations (“Rechnungslegungsänderungsgesetz 2014”) on the separate financial statements of Zumtobel Group AG as of 30 April 2017 – were examined in detail. Status reports on the internal control system, internal audit and compliance management in the Zumtobel Group were presented and accepted. The effects of the EU Audit Reform on Zumtobel Group AG were also presented and discussed including, among others, the mandatory approval of non-audit services provided by the auditor and a detailed audit opinion. In conclusion, the Audit Committee passed a resolution which covers the pre-approval of consulting services by the auditor within the framework of legal regulations to ensure the auditor's independence.

# zumtobel group

## **Committee for Management Board Matters**

An important focal point of this committee's activities in 2016/17 was, similar to previous years, its work on the Compensation Committee, which takes decisions on the remuneration system. The Compensation Committee includes representatives of the Management Board, Supervisory Board and human resources department. It was also supported during the reporting year by FehrAdvice & Partners AG, an independent consulting firm located in Zurich.

The system introduced in 2014/15 to calculate the variable remuneration for the Management Board and key managers of Zumtobel Group AG was implemented and refined during the reporting year. This remuneration system is linked to a capital market-based performance indicator (total shareholder return) and reflects the goals of Zumtobel Group AG to promote cooperation within the Group, to leverage synergy effects and, in this way, to optimise the Group as a whole ("one firm" approach). Under this system, performance evaluation is based on a comparison of the total shareholder return of Zumtobel Group AG with the total shareholder return of a specifically selected group of comparable companies.

In 2016/17 the Committee for Management Board Matters dealt with the specific design of the remuneration system and its application to the remuneration of the Management Board and key management. The effects of the performance-based remuneration system on the corporate culture and team spirit in the Zumtobel Group were also discussed with the members of the Management Board. Additional information is provided in the remuneration report.

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.

This committee held ten meetings and telephone conferences in 2016/17, which involved discussions and follow-up assessments of key topics. Additional telephone conversations were also held on the above-mentioned subject areas.

## **Strategy Committee**

The members of the Strategy Committee held several meetings and telephone conferences before and after the Supervisory Board meetings and also met in a closed conference to deal with a wide range of key strategic and cultural issues involving the Zumtobel Group. The most important issues accompanied by the Strategy Committee in 2016/17 concerned the planned sale of the lighting plant in Les Andelys (France) to the French industrial group Activeinvest, the development of a new low-wage location in Serbia and strategic considerations on the components business (Tridonic). In addition, the Strategy Committee dealt with issues involving the future organic and inorganic growth of the Zumtobel Group, also with the support of international investment banks which are experienced in this area.

## **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 2016/17 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 annual 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 annual 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 and the corporate governance report, which was reviewed by the Audit Committee.

The Supervisory Board supports the recommendation by the Management Board to the annual general meeting, which calls for the distribution of a EUR 0.23 dividend per share from annual profit for the 2016/17 financial year and the carryforward of the remaining amount.

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, 22 June 2017