

# **zumtobel group**

## **Report**

**by the Supervisory Board**

**of ZUMTOBEL AG**

**on 24 June 2014 for the 2013/2014 Financial Year**

Dear Shareholders,

We performed the duties required by law and the articles of association during the 2013/14 financial year by regularly monitoring the direction of the company by the Management Board and the management of Zumtobel 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 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.

Intensive exchanges between the Supervisory Board and Management Board during the first months of the 2013/14 financial year revealed fundamental differences of opinion over the future strategic direction of the Zumtobel Group and ultimately led to a change in the Management Board during August 2013. An experienced manager was subsequently found in Ulrich Schumacher, who was appointed CEO and interim CFO as of 1 October 2013. Also opportune was the appointment of a very competent candidate, Karin Sonnenmoser, to the position of CFO as of 1 May 2014. With Ulrich Schumacher, Karin Sonnenmoser and Martin Brandt, the Zumtobel Group has an excellent Management Board. The Supervisory Board is convinced that we will be able to lead the company into a successful future with this new team.

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

The Supervisory Board met seven times during the 2013/14 financial year: four times at scheduled meetings, once at an extraordinary session, once in a strategy meeting and once in a closed conference. All members of the Supervisory Board were present at all meetings.

The Supervisory Board meeting on 25 June 2013 focused, above all, on the 2012/13 annual financial statements and consolidated financial statements of Zumtobel 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 2012/13 financial year, we agreed with the Audit Committee's recommendation to approve the consolidated financial statements, including the notes and group management report. In this connection, the Management Board's recommendation to distribute a dividend of EUR 0.07 per share was approved. We also approved the report by the 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 for the 2013/14 financial year. The Supervisory Board's report to the annual general meeting was discussed and endorsed. Another point on the agenda was Tridonic's exit

from the magnetic ballast business, which was approved after a detailed discussion. Based on the results of a self-evaluation questionnaire, opportunities for improving the organisation and work processes of the Supervisory Board were considered.

In an extraordinary meeting on 22 August 2013, we accepted the resignations of Harald Sommerer as chief executive officer and Mathias Dähn as chief financial officer. Ulrich Schumacher was appointed CEO and interim CFO as of 1 October 2013.

The Supervisory Board meeting on 27 September 2013 dealt with the management report and key financial data on the first quarter of 2013/14. Appointments that required the approval of the Supervisory Board were approved. At this meeting we also thanked Harald Sommerer and Mathias Dähn for their efforts during the past years.

In view of the upcoming change on the Management Board, a strategy meeting was held immediately after the scheduled Supervisory Board meeting to give Ulrich Schumacher a quick overview of the development of business and strategic viewpoints. Mr. Schumacher discussed his initial observations and analyses after a presentation of the historical and current development of business, and his key principles were accepted by the Supervisory Board. The Supervisory Board expressed its confidence that the new Management Board team will be able to quickly implement the measures required for the Zumtobel Group's strategic reorientation.

The Supervisory Board met in a closed conference on 19 December 2013 to discuss strategic issues and the new organisational structure of the Zumtobel Group. In addition, approval was granted for the purchase of the shares in the South African Tridonic sales company from the previous joint venture partner.

The main topics of the Supervisory Board meeting on 24 January 2014 included the management report on the first six months of 2013/14 and the outlook for the full financial year as well as the current situation in the Lighting Segment's global operations network, above all with respect to opportunities for optimising capacity utilisation and cost structures.

The central topics of the Supervisory Board meeting on 25 April 2014 were the management report on the third quarter of 2013/14, the budget for 2014/15 and the related medium-term planning for the financial years up to 2016/17. The Supervisory Board approved the budget and accepted the medium-term planning. Transactions that required and received the approval of the Supervisory Board included measures to optimise the global operations network.

## **Audit Committee**

The Audit Committee met twice during 2013/14, whereby all members were present at both meetings.

The meeting on 25 June 2013 concentrated on the annual financial statements for 2012/13. The auditor and company staff supplied the Audit Committee with detailed information on the consolidated financial statements and individual financial statements of Zumtobel AG as well as accounting processes and major accounting principles. Information was presented on the status of the finance organisation and the review of the compliance system, and other reports (risk management system, internal control system, internal audit, corporate governance and insider compliance) were discussed and accepted. The Management Board's recommendation for the distribution of profit was approved. A resolution for the appointment of the auditor for the 2013/14 financial year was approved and passed on to the Supervisory Board.

The Audit Committee meeting on 24 January 2014 dealt with the six-month financial statements as of 31 October 2013, whereby the related reports by the auditor and corporate staff were accepted. The accounting process, the focal points of the review and related issues were discussed in detail. In preparation for the 2013/14 financial statements, the approach and focal points of the audit as well as details on preparatory measures for the 2013/14 consolidated financial statements were discussed. The Audit Committee also received a report on the external review of the compliance management system and discussed the design of this system in detail. The Audit Committee agreed with the Management Board's recommendation to improve the effectiveness of the compliance management systems and will receive further reports on the status of implementation. As the first measure following this review, the search was started for a manager to head the newly created compliance department. Other reports covered the status of the internal control system, the risk management system, internal audit and anti-corruption measures in the Zumbobel Group.

## **Committee for Management Board Matters**

In 2013/14 the activities of the Committee for Management Board Matters (CMBM) focused primarily on the change in the CEO and CFO positions and the remuneration system for the Management Board and key employees.

The changes on the Management Board were prepared and implemented conscientiously by the CMBM in several meetings and numerous personal discussions. The CMBM made a recommendation to the Supervisory Board, calling for the termination of the contracts with Harald Sommerer (CEO) and Mathias Dähn (CFO) and the conclusion of a new contract with Ulrich Schumacher as CEO and interim CFO. This step was preceded by a series of discussions with Ulrich Schumacher. The Supervisory Board unanimously adopted this recommendation at an extraordinary Supervisory Board meeting on 22 August 2013. The changes on the Management Board were announced to the capital market and the general public in an ad-hoc release and press release, and employees were informed through an internal memorandum.

Together with a consulting firm, the CMBM then started the search for a new CFO. The selection process took place from September to December 2013, whereby two days of interviews were held with a number of candidates who were chosen from a larger circle of applicants. Further discussions and a meeting with the new CFO Ulrich Schumacher were held with three candidates. The decision was then taken to begin negotiations with Karin Sonnenmoser; her contract was concluded during the second week of January 2014 and her entry date was set at 1 May 2014.

Another major issue for the CMBM in 2013/14 was its work on the Compensation Committee. As explained in the previous year's corporate governance report, a new system to calculate variable remuneration for the Management Board and key management was discussed and implemented in 2012/13. The so-called "Total Reward System", which was developed together with FehrAdvice & Partners, a consulting firm located in Zurich, compares the operating results of the individual Zumbobel Group brands (Zumbobel, Thorn, Tridonic) with the operating results of relevant competitors and other similar companies.

The Compensation Committee meeting on 5 June 2013 focused on the exchange of experience with the new incentive system, the adjustment of the peer group for the Zumbobel Group and its brands for the 2013/14 financial year and the evaluation of management performance in the Zumbobel Group and its brands.

On 12 December 2013 the Compensation Committee dealt with the new strategy introduced by the Management Board and its effect on the Total Reward System. The new strategy is designed to support cooperation within the Group, to realise synergy effects and, in this way, to optimise the Group as a whole ("one firm"). In this connection, the Compensation Committee asked FehrAdvice & Partners and the Management Board to develop a recommendation for bringing the Total Reward Systems in line with the newly approved "one firm" strategy.

The recommended adjustments were approved at a meeting on 24 April 2014 and generally represent the conversion to a capital market-oriented relative performance indicator (so-called "total shareholder return") for the entire Group that will also cover the development of the individual brands. This will be supplemented by functional and position-related performance indicators that reflect the individual goals required for the implementation of the Group's new strategy. The new remuneration system will be introduced for the Management Board and key employees starting with the 2014/15 financial year.

## **Annual Financial Statements**

After an extensive review and discussion of the annual financial statements of Zumtobel AG with the auditor at meetings of the Audit Committee and the Supervisory Board, which provided no grounds for limitations, 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 AG. These financial statements are therefore considered finalised in accordance with § 96 (4) of the Austrian Stock Corporation Act. The same applies to the consolidated financial statements. The Supervisory Board also approved 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 0.18 dividend per share from annual profit for the 2013/14 financial year and the carryforward of the remaining amount.

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

We would also like to thank the shareholders of Zumtobel AG for the confidence they have placed in us.

For the Supervisory Board

Jürg Zumtobel  
Chairman of the Supervisory Board

Dornbirn, 24 June 2014