

# SUSTAIN- ABILITY REPORT

of the Zumtobel Group



## 1.6 Non-financial Statement for the Group

The Zumtobel Group is an international lighting corporation and a leading supplier of innovative lighting solutions, lighting components and related services. A detailed description of the business model is provided in this management report under "The Zumtobel Group – an Overview".

Sustainable and responsible actions are firmly anchored in the Zumtobel Group. The Group acknowledges its responsibility for society and is committed to the principle of sustainable development. This includes a contribution to providing coming generations with a stable economic, social and ecological environment. In pursuing its economic interests in daily business activities, the Zumtobel Group therefore also takes ecological, social and ethical factors into consideration.

**NFI statement is based on GRI standards**

This year's consolidated management report includes the summarised non-financial statement for the Group (NFI statement) required by § 267a of the Austrian Commercial Code. The Zumtobel Group meets its reporting requirements under the Austrian Sustainability and Diversity Improvement Act ("Nachhaltigkeits- und Diversitätsverbesserungsgesetz") on environmental, social and employee issues, the respect for human rights and the fight against corruption and bribery. All of the information in this report refers equally to Zumtobel Group AG and the Group, including its subsidiaries, unless indicated otherwise. This NFI statement applies to the 2018/19 financial year and is based on the GRI standards issued by the Global Reporting Initiative (GRI). The reporting was expanded to place greater focus on the issues important to the Zumtobel Group and its stakeholders. In addition to the NFI statement, part of the required content is included in the 2018/19 group management report, the corporate governance report and the consolidated financial statements. The major risks were identified and concepts with measures and clear targets were developed for all relevant issues in agreement with top management.

The summarised non-financial statement of the Zumtobel Group in this management report was reviewed by the Supervisory Board for agreement with legal requirements, correctness and appropriateness.

**NFI statement was reviewed by the Supervisory Board**

### 1.6.1 Strategy and management

The materiality analysis carried out together with an external consulting firm in 2017/18 was retained for this reporting year because neither the Group's business activities nor the resulting effects on the non-financial aspects had changed substantially.

**Materiality analysis forms the basis for the NFI statement**

The starting point for the materiality analysis was formed by a catalogue of roughly 150 subject areas. In addition to the sustainability issues from the 2014/15 materiality analysis, peer group concerns, current reporting standards (ISO 26000, GRI) and relevant industry topics and trends were also included. Six specialist areas in the Zumtobel Group then carried out an internal assessment based on a structured written questionnaire, which was used to determine the issues necessary for an understanding of the business, operating results or positioning as well as an understanding of the effects of business activities on the non-financial issues. This assessment led to the definition of nine issues through which the Zumtobel Group has a significant impact on the economy, environment and society and are therefore considered particularly relevant for the future of the Zumtobel Group. The results were then validated by the Management Board.

The following nine issues are material for the Zumtobel Group in the sense of the Austrian Sustainability and Diversity Improvement Act:

- Sustainable and profitable growth
- Innovation
- Sustainable products and services
- Corporate governance and compliance
- Training and continuing education
- Health protection and occupational safety
- Work-life balance
- Sustainable procurement
- In-process environmental protection

**Reference table for the NFI statement:**

Non-financial aspect	Major issues	Page reference
Fight against corruption and bribery	<ul style="list-style-type: none"> <li>• Corporate governance and compliance</li> </ul>	34
Environmental concerns	<ul style="list-style-type: none"> <li>• Sustainable products and services</li> </ul>	33
	<ul style="list-style-type: none"> <li>• Sustainable procurement</li> </ul>	40
	<ul style="list-style-type: none"> <li>• In-process environmental protection</li> </ul>	41
Employee concerns	<ul style="list-style-type: none"> <li>• Training and continuing education</li> </ul>	33
	<ul style="list-style-type: none"> <li>• Work-life balance</li> </ul>	37
	<ul style="list-style-type: none"> <li>• Health protection and occupational safety</li> </ul>	37
Social concerns	<ul style="list-style-type: none"> <li>• Sustainable and profitable growth</li> </ul>	32
	<ul style="list-style-type: none"> <li>• Sustainable products and services</li> </ul>	33
Respect for human rights	<ul style="list-style-type: none"> <li>• Corporate governance and compliance</li> </ul>	34
	<ul style="list-style-type: none"> <li>• Sustainable procurement</li> </ul>	40

**No risks that could result in severe negative effects**

The Zumtobel Group has installed a group-wide internal risk management and control system. This non-financial group statement pursuant to § 267a of the Austrian Commercial Code takes a net view of risks, meaning the evaluation also includes risk-minimising measures. In connection with the non-financial aspects, the Zumtobel Group was unable to identify any material risks arising from its business activities or business relationships, products or services which could have a material negative effect. Additional information can be found in the management report under “Internal control system“ and “Risk management“.

**Sustainable corporate culture**

The sustainable corporate culture with its focus on integrity and responsibility is based on the trust of customers, shareholders and business partners in the Zumtobel Group. Responsible management also includes supporting the guiding principle of sustainable development, integrating this principle in decision processes and following this principle in daily business life. The Zumtobel Group operates in a business environment that includes a wide range of economic, ecological and social opportunities and challenges. Consequently, the Zumtobel Group has set a goal to ensure that its business partners and suppliers also follow the same high ethical principles and standards.

Corporate governance in the Zumtobel Group stands for responsible and transparent management and control that is oriented towards achieving and maintaining long-term success. The Management Board, as the

executive body, is responsible for directing and managing the company. It acts in the company's interests and is committed to increasing the company's value. The Management Board of the Zumtobel Group operates the business under its own responsibility. It develops the corporate strategy, coordinates this strategy with the Supervisory Board and ensures the subsequent implementation. The Group's sustainability programmes and the related targets and measures are reviewed and approved by the Management Board, while the individual specialist departments are responsible for the expansion, operational implementation and monitoring of sustainability activities.

The Zumtobel Group has taken a strategic approach in dealing with the nine identified major issues. In particular, this includes the definition of qualitative goals, the development of concrete measures and the determination of performance indicators. These goals, measures and performance indicators are listed in the following concept table.

### **Concrete concepts for the major issues**

Major issue	Goals	Measures	Performance indicator
<b>1. Sustainable management</b>			
Sustainable and profitable growth	Sustainable increase in the value of the company, taking economic, social and ecological factors into account	<ul style="list-style-type: none"> <li>● Consistent implementation of FOCUS strategy</li> <li>● Concentration on profitable core markets and applications</li> </ul>	● Revenues from core markets
	Expansion of the service business	<ul style="list-style-type: none"> <li>● Significant increase in service revenues</li> </ul>	● Revenues from services
<b>2. Corporate governance and compliance</b>			
Corporate governance	Further development of the compliance management-system	<ul style="list-style-type: none"> <li>● Revision, expansion and communication of the code of conduct of Zumtobel Group AG</li> <li>● Revision of target group-oriented content for compliance training and continuation of e-learning-based compliance training and on-site training</li> <li>● Preparation and communication of specific compliance guidelines on anti-corruption, competition and anti-trust law and money laundering (based on risk assessment)</li> <li>● Mapping of responsibilities for compliance issues</li> </ul>	● Per cent of employees trained, number and per cent of successfully completed compliance training certificates
	Global responsibility for data protection issues	<ul style="list-style-type: none"> <li>● Revision of data protection guideline</li> <li>● Roll-out of e-learning programme on data protection issues for salaried employees</li> <li>● Implementation of data protection software</li> </ul>	● Number of inquiries answered on time
<b>3. Responsible employer</b>			
Training and continuing education	Increase in employee-specific and job-related training	<ul style="list-style-type: none"> <li>● Expansion of the training offering in the Zumtobel Group, focus on further increase in e-learning programmes</li> </ul>	● Training and education hours
	Increase in individual personal development appraisals	<ul style="list-style-type: none"> <li>● Conducting of annual employee appraisals</li> <li>● Identification of individual development potential and necessary personnel development measures</li> </ul>	● Number of employees who receive regular performance evaluations and continuous training
Health protection and occupational safety	Continuous improvement of health programme	<ul style="list-style-type: none"> <li>● Implementation of planned measures in the health project for women in production with a special focus on prevention through exercise, regeneration and age-appropriate working conditions</li> </ul>	<ul style="list-style-type: none"> <li>● Development of sick leave in the Group and ratio of long-term to short-term sick leave</li> <li>● Number of age-appropriate jobs</li> </ul>
	Prevention of work accidents	<ul style="list-style-type: none"> <li>● Continuous improvement in TRI rate in the lighting and components plants</li> <li>● Implementation of pro-active training courses to prevent work accidents</li> </ul>	● TRI rate (Total Recordable Injuries)
Work-life balance	Support for employees' work-life balance	<ul style="list-style-type: none"> <li>● Increase in offering of flexible working time models to reflect the expectations of different generations</li> <li>● Retention of free-time option</li> </ul>	<ul style="list-style-type: none"> <li>● Number of part-time employees</li> <li>● Number of employees with a free-time option</li> </ul>
<b>4. Product responsibility and innovation</b>			
Innovation	Expansion of competitive product portfolio	<ul style="list-style-type: none"> <li>● Continuous product development</li> <li>● Increase in technology partnerships</li> </ul>	<ul style="list-style-type: none"> <li>● Ratio of new products to revenues (in %)</li> <li>● R&amp;D ratio</li> <li>● Number of registered patents</li> </ul>

Major issue	Goals	Measures	Performance indicator
	Increase in brand reputation through research projects	<ul style="list-style-type: none"> <li>● Participation in national and international research projects</li> <li>● Continuation of long-term, internal research and pre-development projects</li> </ul>	
Sustainable products and services (incl. product safety and quality)	Compliance with high safety standards through use of legal and voluntary test marks	<ul style="list-style-type: none"> <li>● Internal measurements and tests</li> <li>● Cooperation with external testing institutes and commissioning of external audits</li> </ul>	
	Inclusion of sustainability aspects throughout the entire product lifecycle	<ul style="list-style-type: none"> <li>● Use of energy-efficient, intelligently managed lighting technology</li> <li>● Reduction of product-related resource consumption</li> <li>● Continuous improvement in product efficiency</li> </ul>	<ul style="list-style-type: none"> <li>● Energy savings through energy-efficient Zumtobel Group products in MWh</li> <li>● Reduction in CO<sub>2</sub> emissions through energy-efficient Zumtobel Group products in tonnes</li> </ul>
	Expansion of innovative product and service offering	<ul style="list-style-type: none"> <li>● Increase in share of revenues from LED products</li> <li>● Significant increase in service revenues</li> <li>● Development of innovative business models</li> </ul>	<ul style="list-style-type: none"> <li>● Share of revenues from LED products</li> <li>● Revenues from services</li> </ul>
Sustainable procurement	Compliance with high environmental and social standards in the supply chain	<ul style="list-style-type: none"> <li>● Regular, annual sustainability audits for new and existing suppliers</li> <li>● Commitment of suppliers to compliance with RoHS/REACH</li> <li>● Requirement for all suppliers to maintain an environmental management system</li> <li>● Bundling of suppliers to utilise synergies</li> </ul>	<ul style="list-style-type: none"> <li>● Number of sustainability audits</li> <li>● Number of suppliers with an environmental management system</li> </ul>
	Further development of supplier code of conduct (SCOC)	<ul style="list-style-type: none"> <li>● Requirement for all new suppliers to sign and comply with SCOC</li> <li>● Requirement for existing major suppliers to comply with SCOC</li> </ul>	<ul style="list-style-type: none"> <li>● Signing of revised SCOC by 100% of new suppliers</li> <li>● Signing of revised SCOC by 95% of existing suppliers (based on procurement volume)</li> </ul>
<b>5. Environmental protection</b>			
In-process environmental protection	Careful and efficient use of resources	<ul style="list-style-type: none"> <li>● Certification under the expanded requirements of ISO 14001:2015 at the major locations</li> <li>● Expansion of environmental certifications in the service &amp; solution business</li> <li>● Performance of energy audits at the 6 locations certified under ISO 50001</li> <li>● Implementation of energy efficiency measures on a local basis</li> <li>● Further development of environmental data recording, integration of the lighting plant in Barrowford (UK)</li> </ul>	<ul style="list-style-type: none"> <li>● Number of certified locations</li> </ul>
	Inclusion of ecological aspects throughout the entire product lifecycle	<ul style="list-style-type: none"> <li>● Evaluation and monitoring of environmental data and identification of need for action</li> <li>● Support for holistic approach to include ecological aspects throughout the entire product lifecycle</li> <li>● Compliance with internal and external environmental protection guidelines</li> </ul>	

**Continuous stakeholder dialogue**

A continuous and open exchange with its stakeholders has high priority for the Zumtobel Group. This dialogue creates trust and provides valuable impulses for evaluating ways in which the Group can strengthen its positioning in the future. The Zumtobel Group's stakeholder universe includes customers and business partners, investors and analysts, the media, employees, suppliers, researchers and scientists, artists, designers and architects, politics, national and local authorities as well as NGOs. Various dialogue forms are used to contact stakeholders, including newsletters, events, conferences, meetings with the press and roadshows as well as the Internet, Intranet and social media.

**Membership in professional associations**

The Zumtobel Group is active in industrial associations, standardisation committees, lighting societies and individual consortia on behalf of the lighting industry, its customers and users in order to develop the best framework conditions for optimal energy efficiency and lighting quality. In connection with the certification of energy-efficient buildings, the company is a member of various sustainable construction initiatives. The most important memberships at the present time are as follows: ZVEI ("Zentralverband Elektrotechnik- und Elektroindustrie e. V.", Germany), Lighting Industry Association (LIA, Great Britain), Association for the Electrical and Electronics Industries (FEEL, Austria), European Committee for Standardisation (CEN), International Standards Organisation (ISO), International Electrotechnical Committee (IEC), International Commission on Illumination (CIE), Lux Europe, various national lighting societies, German Sustainable Building Council (DGNE), Green Building Council, Consortium for international specifications of LED light sources interfaces (ZHAGA) and The Connected Lighting Alliance (TCLA).

**1.6.2 Sustainable and profitable growth**

**FOCUS on core markets and applications**

The Management Board developed, approved and presented the new FOCUS strategy together with the management team in 2018/19. The central elements of this strategy include a concentration on profitable core markets and applications combined with a leaner organisation, the digitalisation of processes, a renewed emphasis on the three core brands and the expansion of the service business.

**Financial flows to stakeholders**

The Zumtobel Group generated EUR 1,173.2 million of economic value in the 2018/19 financial year. After the deduction of costs incurred, payments to equity and debt providers and public authorities, the remaining economic value equals EUR 35.1 million. This presentation reflects the definition under GRI and represents the financial flows derived from the income statement and cash flow statement.

Financial flows to stakeholders in EUR million	2018/19	2017/18
Corporate revenues <sup>1</sup>	1,173.2	1,210.5
Operating expenses <sup>2</sup>	(723.1)	(752.4)
Personnel expenses	(399.2)	(413.6)
Payments to shareholders	0.0	(9.9)
Payments to provider of borrowed capital	(6.7)	(6.7)
Payments to public bodies <sup>3</sup>	(9.0)	(10.1)
<b>Residual economic value</b>	<b>35.1</b>	<b>17.8</b>

<sup>1</sup> Revenues and other operating income, interest income and payments received for the sale of assets. <sup>2</sup> Cost of goods sold, selling expenses, administrative expenses and other operating expenses (excl. personnel expenses, depreciation and amortisation). <sup>3</sup> Excluding deferred taxes.

### 1.6.3 Sustainable products and services

The Zumtobel Group's commitment to sustainability is closely related to the core business because of the important role played by energy-efficient, intelligently managed lighting technology in conserving resources. This trend has been accelerated by the continuous increase in the efficiency (lumes/watt) of LED luminaires and a parallel decline in the cost of LED chips. However, the steady increase in efficiency will slow when the physical limits are reached in the coming years. Artificial lighting is responsible for roughly 19% of worldwide electricity consumption. Of this amount, nearly two-thirds are used for commercial buildings and outdoor lighting – which represents light in exactly those areas of application that form the core expertise of the Zumtobel Group. Most of the energy consumption in the lifecycle of lights still occurs during the use of the light, but other issues like resource consumption and the circular economy are also becoming more important because of the slower increase in efficiency. The Zumtobel Group has been working for many years to steadily improve the energy efficiency of its products while, at the same time, integrating sustainability aspects along the product life cycle.

**Sustainability is closely related to the core business**

In order to demonstrate the Zumtobel Group's contribution to energy efficiency, an estimate was developed for the savings potential of the energy-efficient products it marketed during the reporting year. Conventional systems were used as the reference for these calculations, whereby the energy savings potential was based on the following main criteria: efficient LED lighting systems, dimmability and the use of electronic control devices.

**High contribution to reducing electricity consumption**

In 2018/19 the Zumtobel Group helped to realise energy savings 4,640,736 megawatt hours (2017/18: 3,857,801 MWh). That represents the annual electricity requirements of 1,546,912 two-person households (2017/18: 1,285,934). Based on CO<sub>2</sub> emissions converted at an average global factor of 0.475 kg/KWh (2017/18: 0.519 kg/KWh), the energy savings contribution of the Zumtobel Group amounted to approximately 2,204,350 tonnes of CO<sub>2</sub> in 2018/19 (2017/18: 2,002,199).

The Zumtobel Group plans to change the method for calculating its contribution to energy efficiency to reflect the continuing renovation of older buildings and the related steady decline in conventional systems. Future calculations will no longer be based on an increasingly less relevant component of older buildings, but on the total market capacity (connected load) in relation to the number of lights. This represents a benchmark similar to the "standard consumption" used in other areas. The new benchmark will be calculated retroactively for each business year and show the progress towards the improvement in energy efficiency.

**Change in calculation method**

High innovative power is the key to a successful corporate future. Accordingly, the Zumtobel Group's central research and development department systematically includes sustainability in the innovation process. Additional information on the key issue of innovation can be found in the management report under "Research and Development".

The transformation of the lighting industry has increased the importance of the LED business and led to a stronger focus on intelligent and Internet-linked lighting. The result has been a growing demand for innovative LED-based lighting solutions and comprehensive, integrated service offers. The development, production and sale of innovative, sustainable products and services therefore represent elementary cornerstones for the medium- and long-term economic sustainability of the Zumtobel Group. Clear goals have been defined to safeguard the development of an innovative product and service portfolio. The share of revenues from LED products stagnated at a very high level in 2018/19, but substantial growth was recorded in the revenues from project and software-oriented services. This will also protect the Zumtobel Group's high contribution to energy savings in the future.

**Further development of innovative product and service offering**

**Compliance with high quality and safety standards**

Sustainable products also connected with the highest demands on safety and quality. All production facilities in the Zumtobel Group's worldwide network, with the exception of the two plants in the USA and New Zealand, have been certified according to the ISO 9001 international standard for quality management systems. The Group's standardised, centrally defined selling processes are also certified. The primary goal is to continuously improve the quality of production and selling processes and, in this way, increase customer satisfaction. In this connection, certification was changed in 2018/19 to meet the expanded and revised requirements of ISO 9001:2015. The Zumtobel Group guarantees, based on internal audits and measurements, that its entire product portfolio meets all applicable standards and regulations in the respective regions and countries. This applies, in particular, to directives concerning light quality and energy efficiency as well as labelling requirements and health and safety aspects. The Zumtobel Group has also certified many of its products under the voluntary European ENEC scheme (European Norms Electrical Certification), which includes verification by independent testing institutes of compliance with the relevant European safety norms and performance requirements.

**1.6.4 Corporate governance and compliance**

For the Zumtobel Group, corporate governance represents a comprehensive model for the management and monitoring of the company. The general framework for the corporate governance system in the Zumtobel Group is formed by the Austrian Corporate Governance Code, whereby the corporate values, the code of conduct and Group policies are the major elements.

**Binding code of conduct for all employees**

Compliance with legal requirements represent the basic values for entrepreneurial actions. In order to ensure the necessary compliance, the Zumtobel Group has developed a binding code of conduct for all employees. The code was originally scheduled to be updated in 2018/19, but this project was postponed to the next financial year due to the reorganisation and reprioritisation of activities which are described below. Independent of the delayed update, the salaried employees in all member companies of the Zumtobel Group were requested, at the end of the reporting year, to complete mandatory training on the code of conduct over the internal e-learning platform. The progress of training is monitored centrally and reported to the Management Board and the Audit Committee. Beginning with the 2019/2020 financial year, this module will become part of the mandatory training process for all new employees.

**Data protection is an important focal point**

The corporate reorganisation included the combination of the corporate audit and corporate integrity departments in autumn 2018. This step was connected with a change in the weighting of the existing areas of responsibility. An important new focal point is the responsibility for transferring the global data protection project into a governance structure with guidelines that ensure continued compliance in this extremely important area for the Zumtobel Group. The most important measures implemented in the area of data protection include the following:

- Governance structure established
- Global guideline issued
- Tools to consolidate data files developed

At the same time and based on the same procedure used for training on the code of conduct, an e-learning module on the Austrian Data Protection Act ("Datenschutz-Grundverordnung") was rolled out. Plans for the coming financial year include the continuation of training activities and the standardisation and consolidation of Group-wide data files.

The compliance management system is the focus of continuous improvement in order to optimally prepare the Zumtobel Group to deal with current and future issues. The further development of this system in 2018/19 included the installation of a professional whistleblowing system that will allow employees and third parties to anonymously report possible compliance violations over the company's website. The whistleblowing system is available for reporting through existing channels (supervisors/managers and specialist departments, above all the HR and legal departments) as well as through direct contact with the director of corporate audit and compliance.

**Continuous improvement of the compliance management system**

In addition to the previously mentioned training modules for data protection and the code of conduct, further training models are planned for the coming year on the prevention of money laundering, corruption and violations of antitrust law. These training units were originally scheduled for 2018/19, but were postponed to the next financial year due to the change in the responsibilities of corporate audit and compliance. The individual compliance areas in the Zumtobel Group will be reviewed to ensure complete coverage after the reorganisation is completed.

No violations of legal requirements were reported or identified during the 2018/19 financial year. This also applies to incidents or proceedings related to violations of human rights, discrimination, competitive or antitrust behaviour, corruption or environmental regulations.

As an international company, the Zumtobel Group is fully committed to the protection of human rights and compliance with high social standards and the legal regulations applicable in Austria and other countries. The Group believes in the respect for and promotion of human rights and compliance with the principles and norms of the International Labour Organisation (ILO). The ILO core labour norms are based on four fundamental principles: the freedom of association and collective bargaining, the elimination of forced labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation. Human rights aspects have been included in the Zumtobel Group's code of conduct to increase employees' awareness and are also addressed in the compliance training courses.

**Full commitment to respect for human rights and compliance with high social standards**

### 1.6.5 Responsible employer

The success of the Zumtobel Group is based on qualified, committed and motivated employees. With its wide-ranging product portfolio and open, growth-oriented corporate culture, the Group offers attractive career opportunities for internal development and advancement. Corporate human resources, a headquarters department, defines the strategic focal points for personnel policies based on the corporate strategy and in close cooperation with the Management Board. The most important sustainability issues in the personnel area at the Group level are training and continuing education, the work-life balance and health protection and occupational safety.

## Training and continuing education

### Annual employee review forms the basis for training measures

The limited number of competent specialists also creates major challenges for the international Zumtobel Group to attract qualified applicants and recruit the right people for the right jobs. Systematic professional advancement and development therefore represent a key element for sustainable business success. The annual employee review is an important building block in the interaction between employees and their supervisors and forms the basis for the identification of targeted, individualised training and continuing education measures. In this structured discussion, managers and their staff define goals and develop a common understanding for the values and the importance of the corporate strategy for the specific job responsibilities. Mutual expectations are coordinated and development opportunities are systematically identified. Training measures are also defined depending on the employee's individual needs. Annual reviews were held with 4,597 employees in 2018/19 (78.2%; 2017/18: approx. 4,700 or 75.5%).

### Extensive training offering

In addition to external training opportunities, the Zumtobel Group offers an extensive range of internal training programmes for specialised and personal development in line with the skills, know-how and needs of the respective persons. The range of programmes was further expanded in 2018/19. This was reflected in an increase in the training hours per employee to 13 in the reporting year (2017/18: 12 hours), above all due to the addition of new online options. The online offering was expanded through the introduction of a new learning management system ("myCAMPUS") which focused on training for product know-how, applications and sales skills in 2018/19.

Average trainings hours per employee	2018/19	2017/18
Salaried employees	16	15
Wage employees	8	8
<b>Total employees</b>	<b>13</b>	<b>12</b>

### Targeted talent management

The Zumtobel Group has established a talent programme to focus and support the internal recruitment of men and women for key positions. Special development centres identify the individual potential of these internal talents with regard to future responsibilities and prepare personal development plans. This creates the basis for concrete succession and career planning and continuous management development.

### Continuation and further development of apprenticeship training

The Zumtobel Group views training for young people as part of its social responsibility. As of 30 April 2019, 129 (2017/18: 106) young men and women were in apprenticeship programmes with the Zumtobel Group. This company-based professional education is an important instrument to actively deal with the growing shortage of skilled workers that has resulted from demographic shifts. Apprentices are currently training in the following fields: electrical engineering (incl. automation and process control engineering), electronics, plastics engineering, mechatronics (incl. a special robotics module) and IT engineering. Of the apprentices trained in the Zumtobel Group, 77% remain with the corporation after completing their education.

## Work-life balance

An effective work-life balance for employees is an important factor for strengthening the Zumtobel Group's position as an attractive employer. The key points in this context are the fundamentally changing demands of new generations on the labour market and measures to support the reconciliation of career and family life for working parents. The Zumtobel Group helps to improve the work-life balance by continually increasing the offering of flexible working time models. Part-time employment, educational leave, sabbaticals, parental leave for fathers, home office options or other models are arranged where needed and permitted by the respective position. The number of part-time employees rose from 6.9% of the total full-time equivalent workforce in the previous year to 8.5% in 2018/19. A works agreement also provides for a free-time option under which employees can reduce their working hours – for personal reasons and without changing to part-time status – in exchange for waiving part or the entire amount of their salary or wage increase and arrange for paid time-off (for example, for age-based work, educational programmes or to accumulate longer free-time periods over several years). This free-time option has since been elected by more than 430 employees. At the end of 2018/19, 80 employees in Austria were on parental leave (2017/18: 89). Mothers and fathers who return to work after maternity and parental leave are actively supported in their reintegration.

## Support for employees' work-life balance

## Health protection and occupational safety

Accident prevention and health protection for employees have high priority for the member companies of the Zumtobel Group and are the subject of regularly discussions in employer-employee committees. Local officers monitor compliance with specific environmental, health and safety guidelines at all locations. Measures are implemented on a continuous basis to increase workplace safety and include employee training, improvements to protective clothing and the replacement of machinery. The TRI rate (Total Recorded Injuries: number of work accidents / total number of hours worked × 1,000,000) is monitored monthly at all plants. Accident prevention efforts led to a slight year-on-year reduction in the Group's overall TRI rate from 8.0 to 7.1 in 2018/19. The TRI rate in the lighting plants declined to 10.1 (2017/18: 11.9), while the TRI rate in the components plants rose to 2.7 (2017/18: 1.2). There were no fatal accidents in 2018/19 or in earlier years. The company's goal is to further reduce the TRI rate over the coming years and to develop a pronounced safety culture, for example through an increase in training on the prevention of work accidents.

## Prevention of work accidents

Occupational safety	2018/19	2017/18
Total recorded injuries Lighting Plants (TRI rate)	10.1	11.9
Total recorded injuries Components Plants (TRI rate)	2.7	1.2
Number of fatal accidents	0	0

An annual evaluation of the age structure and age trends in the Zumtobel Group and a statistical comparison of the generations in different areas of the business confirm the demographic development in our society. Healthcare and prevention measures, combined with the maintenance and promotion of employees' fitness for work, have high priority and are the responsibility of "Health & Age", a special unit in the human resources department. Worker protection legislation, presence management, workplace health promotion, leadership and management behaviour, integration management and generation management are the primary elements of the Zumtobel Group's health management programme. Various programmes in these areas have been implemented by the local Group companies in line with the specific needs of their employees. The Zumtobel Group's efforts to protect and promote health, to support age-appropriate workplaces and the maintenance of work fitness were again recognised in March 2019 with the "Salvus" quality seal from the province of Vorarlberg (Austria) for the third year in succession.

## Continuous improvement of health programme

**Health prevention to support the ability to work**

The focus on health prevention in 2018/19 was derived from the annual evaluation of employee absences in the "presence management" area of activity and involved the implementation of specific improvement measures from the project "women in production" (a pilot project by Zumtobel Lighting GmbH). Workshops moderated by employees on nutrition, exercise, regeneration and age-appropriate work led to the integration of the first concrete measures in the production area at the Dornbirn plant. After a successful test and evaluation phase, these health supporting measures will be rolled out to the production areas at other locations.

**Employee rights and remuneration**

**High labour standards & open dialogue with employees and Employees' Council**

As an employer with a strong corporate culture that has grown over many decades, the Zumtobel Group is well aware of its social responsibility for the employees in its many companies throughout the world and remains focused on the further development of responsible working conditions. The Zumtobel Group believes in and promotes the open and regular exchange of information between the Management Board, employees and their representatives. Compliance with the legal participation rights of employees and the principles and standards defined by the International Labour Organisation (ILO) represent an integral part of the code of conduct, which is mandatory for all companies in the Zumtobel Group. Collective agreements cover 54% of the worldwide workforce.

**Equal opportunity & diversity**

Diversity among the workforce is an important factor for protecting the Group's competitive ability and creating an innovative working climate. The men and women employed by the Zumtobel Group come from nearly 80 different nations, whereby the staff at the corporate headquarters in Dornbirn, Austria, represent roughly 50 nations. The Zumtobel Group believes in equal opportunity regardless of gender and ethnic origin. This policy is also part of the Group's code of conduct, which prohibits all forms of discrimination. Accordingly, the personnel decisions in all corporate areas and at all management levels are based on experience, qualifications and performance. The share of women in the Zumtobel Group's workforce currently equals 35.7% (2017/18: 35.8%). There is no specific target for the appointment of women to management positions, but internal and external recruiting and personnel development measures are increasingly aimed in this direction.

**Employee awards**

The Dr Walter Zumtobel Value Award, which carries the name of the Group's founder, was also presented in 2018/19. It is given to persons who demonstrate the corporate values in their everyday actions and, in this way, keep the founder's values alive. The Zumtobel Group values personal initiative, commitment, entrepreneurship and an interest in making new discoveries. Reliability, team spirit, solidarity, and honesty, as well as a positive approach to change are also key elements of the corporate culture.

**Performance-based remuneration schemes**

The Zumtobel Group follows a uniform remuneration scheme that promotes high transparency and ensures performance-based compensation. Remuneration normally exceeds the level required by legal regulations or collective bargaining agreements. Internal and external comparisons are used to confirm that wages and salaries reflect the market level wherever possible. In countries with low-wage standards, the Zumtobel Group also pays compensation that generally exceeds the legal minimum. Detailed position descriptions and function evaluations ("job mapping") allow for the systematic classification of remuneration and ensure that the salary or wage reflects the employee's qualifications and is also fair and appropriate. This focus on the functional content also limits any gender-specific irregularities.

The performance benchmark for all employees eligible for bonuses – excluding the employees who participate directly in a sales bonus scheme – is dependent on the individual area of responsibility and influence and based on two financial indicators (adjusted EBIT and free cash flow) with different weightings. The variable remuneration for upper management consists of a short-term component and a long-term component. The short-term component is paid out directly in cash during the bonus year. The distribution of the long-term component is spread over the following three to five years, whereby the tranche in the respective payment year is weighted by the target achievement of the total shareholder return of Zumtobel Group AG in comparison with a defined peer group as the performance indicator. This structure is intended to support sustainable decisions by management.

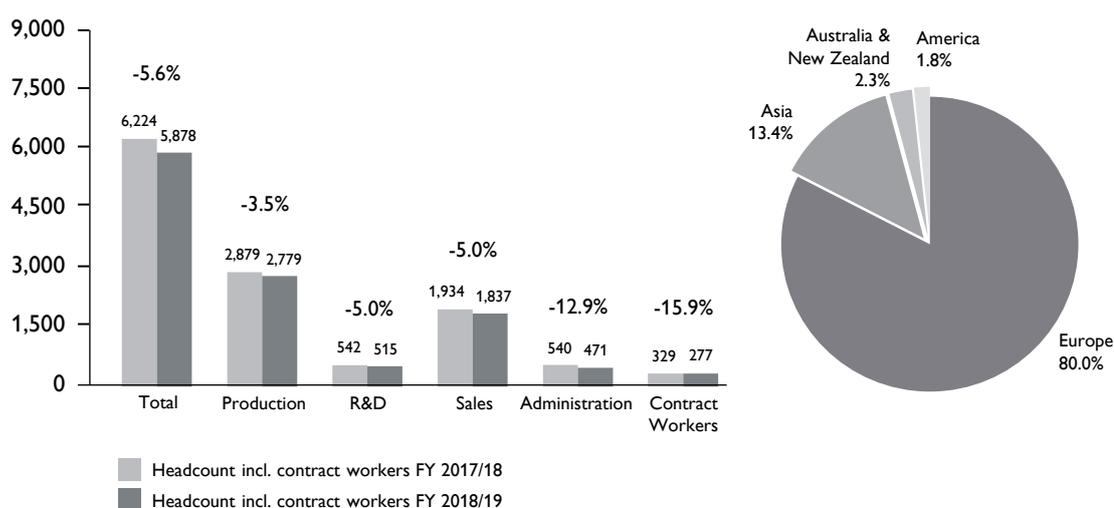
**Long-term salary component to strengthen sustainability**

### Workforce development

The adjustment of personnel capacity to reflect the difficult market environment and the related necessary restructuring measures led to a decline in the workforce in earlier years and again in 2018/19. The Zumtobel Group had 5,878 full-time employees (including contract workers) as of 30 April 2019. The following graph shows the distribution and development of the workforce by activity and region:

**Restructuring measures lead to personnel adjustments**

Breakdown by activity and region



Labour productivity – calculated as adjusted EBIT in relation to personnel expenses – improved from 4.8% in 2017/18 to 6.9% in 2018/19 due to the increase in operating results and the reduction in personnel expenses. Average revenues per employee (including contract workers) was slightly higher than the previous year at EUR 197,699 (2017/18: EUR 192,200). The average length of service with the Zumtobel Group equalled 10.6 years in 2018/19. The classification of employees by gender, age group, type of employment and employment relationship is shown in the following table (excluding contract workers):

	Percentage in FY 2018/19	Percentage in FY 2017/18
Men	64.3	64.2
Women	35.7	35.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
< 30 years old	16.5	16.2
30-45 years	45.4	45.8
45-55 years	25.0	25.9
> 55 years old	13.1	12.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
Salaried employees	62.5	60.6
Wage employees	33.1	34.2
Contract workers	4.4	5.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
Full-time	91.5	93.1
Part-time	8.5	6.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### 1.6.6 Sustainable procurement

#### Procurement concept includes economic, ecological and social aspects

Procurement is a central factor for producing companies. The Zumtobel Group focuses not only on economic aspects, but also on compliance with high environmental and social standards along the entire supply chain. Cooperation between the member companies of the Zumtobel Group and their suppliers has been based for many years on long-term mutual trust and fairness. That provides economical, ecological and socially responsible protection for all key raw materials and input products over the long-term. The basis is formed by the central bundling of procurement activities with the increased consolidation of suppliers and a systematic supplier evaluation process. It begins with strict approval procedures for new suppliers and continues with annual evaluations of all existing suppliers as well as focal point audits of selected suppliers.

#### Central bundling of procurement activities

The Zumtobel Group's procurement organisation is globally positioned, and the procurement volumes from all plants are bundled under designated commodity managers. External procurement volumes for direct materials totalled approximately EUR 390 million in 2018/19 (2017/18: EUR 400 million). The Zumtobel Group works with over 700 suppliers from roughly 30 countries and attempts to purchase most of the raw materials, merchandise and services in the regions where its plants are located. Key raw materials like steel, copper, aluminium and plastic granulate are purchased in Central Europe. Electronic and LED components are sourced primarily in Asia, where the most competitive suppliers are located. The share of the procurement volume from Asia amounted to over 65% (2017/18: 68%) in the Components Segment and nearly 11% (2017/18: 10%) in the Lighting Segment. The consolidation of suppliers and components for direct material deliveries continued during the reporting year and led to a reduction of nearly 4.8% in this network (2017/18: 5.5%). The goal is to reduce the total number of suppliers by 5% annually over the medium-term through increased standardisation. At least two suppliers are always approved and available for high-revenue procurement articles (multi-sourcing strategy). This approach protects supply security and strengthens the Group's negotiating position towards suppliers which, in turn, creates greater synergy effects (bundling of volumes, standardisation and expansion of supplier relationships). However, it also creates the basis for helping preferred suppliers strengthen their focus on sustainability and continuity.

The Zumtobel Group also works to implement its high ecological, social and ethical standards in its business relations with suppliers. The most important instrument in this respect is the code of conduct for suppliers, which was revised and improved in 2017. It formed an integral part of the contracts with all new suppliers during the reporting year. This code combines major international standards and conventions, like compliance with the core norms of the International Labour Organisation (ILO), and addresses important issues like compliance, the environment, health protection and human rights. All key suppliers with which the Zumtobel Group operates are required to observe the revised code of conduct. That covers 95.4% of the current suppliers based on procurement volumes.

**Further development of code of conduct for suppliers**

All new suppliers undergo a Group-wide qualification process and, among others, must confirm compliance with the Zumtobel Group's code of conduct in writing. A release audit is also carried out to review and document the availability of a verifiable quality management system, compliance with environmental and energy management standards and the fulfilment of legal requirements that include RoHS (Restriction of hazardous substances) and REACH (EU directive on chemicals). The supplier approval process was expanded in 2015/16 to also include explicit questions on the avoidance of conflict materials. In order to reduce transport costs and the related environmental pollution, an increased number of local suppliers for the new plant in Serbia were audited and approved. This helps to avoid longer supply routes from other EU states and Asia.

**Systematic supplier approval process**

An important instrument for the joint development of suppliers is the standardised process for the regular, annual evaluation of all existing suppliers. In addition to the recognised success factors of supplier reliability, quality, costs and service, ecological and social responsibility aspects are also evaluated. In order to strengthen the partnerships with regional and global suppliers, the Zumtobel Group held an "International Supplier Day" in 2018 under the motto "Partners 4 Excellence", which also included the presentation of awards in various categories to suppliers from the global network. Sustainability audits with various focal points are also scheduled for selected suppliers each year: In 2018/19 103 audits (2017/18: 76 audits) were carried out – including 44 audits with a special focus on sustainability in the areas of occupational safety and environmental management. Any violations of the code of conduct or environmental standards by business partners are documented and corrective measures are implemented where necessary. If these measures are not implemented within an appropriate period of time, legal steps are taken and the business relationship is terminated. Recommendations are also made, which allow the Zumtobel Group to encourage all its suppliers to implement an environmental management system.

**Regular evaluation and audits of existing suppliers**

### 1.6.7 In-house environmental protection

Environmental protection is of great importance for the Zumtobel Group, not only with respect to the development of energy-efficient, environmentally friendly products but also in connection with efforts to make procurement, production and logistics more environmentally compatible. This approach is reflected in the careful and efficient use of raw materials as well as the minimisation of emissions and waste over the entire product lifecycle. Environmental management in the Zumtobel Group is based on three supporting elements: environmental management systems that are certified according to international standards (ISO 14001 and ISO 50001), strict compliance with internal and external environmental protection guidelines and efforts on behalf of continuous improvement. In 2018/19 the goal was met to complete the certification of all environmentally certified locations under the expanded requirements of ISO 14001:2015. The new production facility in Niš, Serbia, was also successfully certified under ISO 14001:2015 and integrated in the Group's environmental data recording system during the reporting year – in both the components area and the lighting area.

**Environmental management concept based on three supporting elements**

**Environmental management certified under ISO 14001**

Under ISO 14001 certification, an external organisation confirms the application and continuous improvement of an effective environmental management system. The most important goals of the environmental management system are to prevent negative effects on the environment and to ensure compliance with legal and government requirements. Clearly defined operations and processes as well as established methods help to ensure that the best available materials and techniques are used where appropriate and economically feasible. The development of products and services covers the entire lifecycle from the selection of materials and suppliers to design, production, transportation, use and recycling. The following production plants in the Zumtobel Group are currently certified under ISO 14001:2015:

	ISO 14001:2015	ISO 50001:2011	ISO 9000:2015	ISO 18001:2007
Headquarters in Dornbirn, AT	x	x	x	
Service & Solutions Dornbirn, AT			x	
Lighting plant in Dornbirn, AT	x	x	x	
Lighting plant in Lemgo, DE	x		x	
Lighting plant in Spennymoor, UK	x	x (50001:2018)	x	
Lighting plant in Niš, RS	x		x	
Lighting plant in Guangzhou, CN	x		x	x
Lighting plant in Sydney, AU			x	
Lighting plant in Barrowford, UK			x	
Lighting plant in Highland, US				
Lighting plant in Auckland, NZ				
Development location in Les Andelys, FR	x		x	
Components plant in Dornbirn, AT	x	x	x	
Components plant in Jennersdorf, AT	x	x	x	
Components plant in Niš, RS	x		x	
Components plant in Spennymoor, UK	x	x	x	
Components plant in Shenzhen, CN	x		x	
<b>Total</b>	<b>12</b>	<b>6</b>	<b>15</b>	<b>1</b>

**Energy management certified under ISO 50001**

Production is, naturally, the source of the highest energy consumption in the Zumtobel Group. The goal of an energy management systems under ISO 50001 is to continuously improve a company's energetic performance. Energy-related performance is defined as the result of efficient energy use, appropriate energy use and energy consumption. In this connection, regular energy audits are carried out at selected locations to identify opportunities for savings and to develop measures for improvement. The continuous implementation of these energy efficiency measures is intended to ensure the efficient use of energy. The lighting plant in Spennymoor was certified for the first time during the reporting year, which increases the number of Zumtobel Group locations certified under ISO 50001 to six.

**Training on environmental protection**

The awareness of employees for environmental protection is supported by numerous communication channels. A wide range of information is provided in introductory folders and multiple-day training courses for new staff as well as Intranet websites that are available to all employees. Supervisors and environmental protection officers regularly train and instruct employees on the environmental aspects relevant for their specific responsibilities. In addition, employees receive transparent information on planned and implemented environmental protection projects and are encouraged to actively participate.

Activities in support of environmental protection also cover the economical use of resources and the recycling of materials. Key factors include the efficient use of materials, the minimisation of production scrap and waste as well as the recycling of valuable materials. The Zumtobel Group recorded roughly 6,879 tonnes of waste from the production process in 2018/19 (2017/18: 7,625 tonnes), including 381 tonnes (2017/18: 411 tonnes) which were classified as hazardous waste. The production process results, above all, in the following hazardous waste: waste oil, cooling materials and lubricants from metal processing, residual adhesives and waste from the lacquering processes. Over 81% of the waste resulting from production was recycled during the reporting year. In addition to the many improvement measures already implemented, the volume of production is also a factor for the positive change in these indicators.

## Waste management

Waste Disposal in Production in tonnes	2018/19	2017/18
Recyclable waste	5,614	6,171
Residual waste	884	1,043
Hazardous waste	381	411
<b>Total</b>	<b>6,879</b>	<b>7,625</b>

Water is required in only limited volumes and hardly polluted in the production processes used by the Zumtobel Group. However, the responsible and economical use of water is a primary concern. Procedures ensure that wastewater meets municipal requirements before it is transferred to local treatment plants and hold the related indicators clearly below the permissible limits wherever possible. In 2018/19 the Zumtobel Group used approximately 89,239 cubic metres of water in production, compared with 104,026 cubic metres in the previous year. This water was drawn primarily from municipal supplies.

## Water consumption

The Zumtobel Group is working to minimise energy consumption in production. An analysis by process shows the highest energy consumption in the Lighting Segment's plastic injection moulding and lacquering process and in the Components Segment's soldering and hardening process. Most of the energy in production is used in Europe (88%). The share of renewable energy in Europe equals 53%. The various energy sources and consumption in production are shown in the following table:

## Energy consumption

Production Process Energy Consumption in MWh	2018/19	2017/18
Process energy		
Electricity	48,340	48,792
Gas	15,153	15,378
Local heating/district heating	673	293
Oil	116	0
Heating energy		
Gas	7,658	7,496
Local heating/district heating	3,985	3,458
<b>Total</b>	<b>75,925</b>	<b>75,417</b>

The changes in energy consumption resulted primarily from the conversion of heat supplies in the Dornbirn lighting plant from natural gas to district heating and the start-up of production in Niš (Serbia). Diesel oil was used for a limited period of only 10 days to cover peak electricity requirements.

## Greenhouse gas emissions

The development of greenhouse gas emissions from production generally reflects the changes identified for energy consumption. CO<sub>2</sub>-equivalent energy consumption is calculated on the basis of international standards.

CO <sub>2</sub> -Emissions in Production in tonnes	2018/19	2017/18
Oil CO <sub>2</sub> -equivalent	32	0
Gas CO <sub>2</sub> -equivalent	6,185	7,297
Electricity CO <sub>2</sub> -equivalent	16,339	12,946
District heating CO <sub>2</sub> -equivalent	583	590
<b>Total</b>	<b>23,139</b>	<b>20,833</b>

## Optimisation of resource use through global production system

In addition to quality and lean management, environmental, energy and safety management also represent important elements of our global production system. The global production system defines standards and tools and provides support for the effective and efficient use of resources to meet the expectations and demand of the Zumtobel Group's customers. This involves the optimisation of labour-intensive production and support processes as well as the use of commodities (including energy) and the protection of human health and the prevention of negative effects of processes on the environment. The Zumtobel Group is committed to the continuous improvement of its business processes, products and services. Processes have been implemented to identify and assess opportunities for improvement, which are then combined into action programmes and implemented in structured form.

## Sustainable energy use in Dornbirn

The connection to a local district heating network allowed for the partial substitution of natural gas with biogenic-generated heat and led to a reduction in CO<sub>2</sub>. The additional optimisation of the heat distribution network resulted in savings of 750 tonnes of gas CO<sub>2</sub>-equivalent in 2018/19 after only several months. The goal is to realise annual savings of 1,700 tonnes of CO<sub>2</sub> at the lighting plant in Dornbirn. Furthermore, photovoltaic equipment with more than 4,300 solar panels and an energy output of 1,280 kWp was installed over an area of roughly 7,300 m<sup>2</sup> on the building. Full operations are scheduled to begin in summer 2019; this will generate 1,155 MWh of electricity for production and reduce annual CO<sub>2</sub> emissions by a further 125 tonnes.



