

ZUMTOBEL Group

Remuneration Policy for the Members of the Management Board of Zumtobel Group AG

1. Principles of the remuneration policy

The following principles for the remuneration (“Remuneration Policy“) of the members of the Management Board of Zumtobel Group AG were approved by a resolution of the Supervisory Board on 22 June 2020 based on a recommendation by the Committee for Management Board Matters in its capacity as a Remuneration Committee in accordance with C-Regel 43 of the Austrian Code of Corporate Governance (ACoCG). These principles are intended for application after presentation to the 44th general meeting of Zumtobel Group AG.

In accordance with § 78b (1) of the Austrian Stock Corporation Act, the Remuneration Policy must be presented to the general meeting for voting at least every fourth financial year and in the event of material changes.

2. Goals

The remuneration system for the Management Board and top management of the Zumtobel Group AG is performance-oriented. Accordingly, above-average performance has a positive and below-average performance a negative effect on the amount of remuneration for the Management Board.

The remuneration is intended to reflect the scope of activity and responsibility as well as the performance of each Management Board member.

Furthermore, the total remuneration of the Management Board members should reasonably reflect the position of the Company as well as the remuneration in comparable companies.

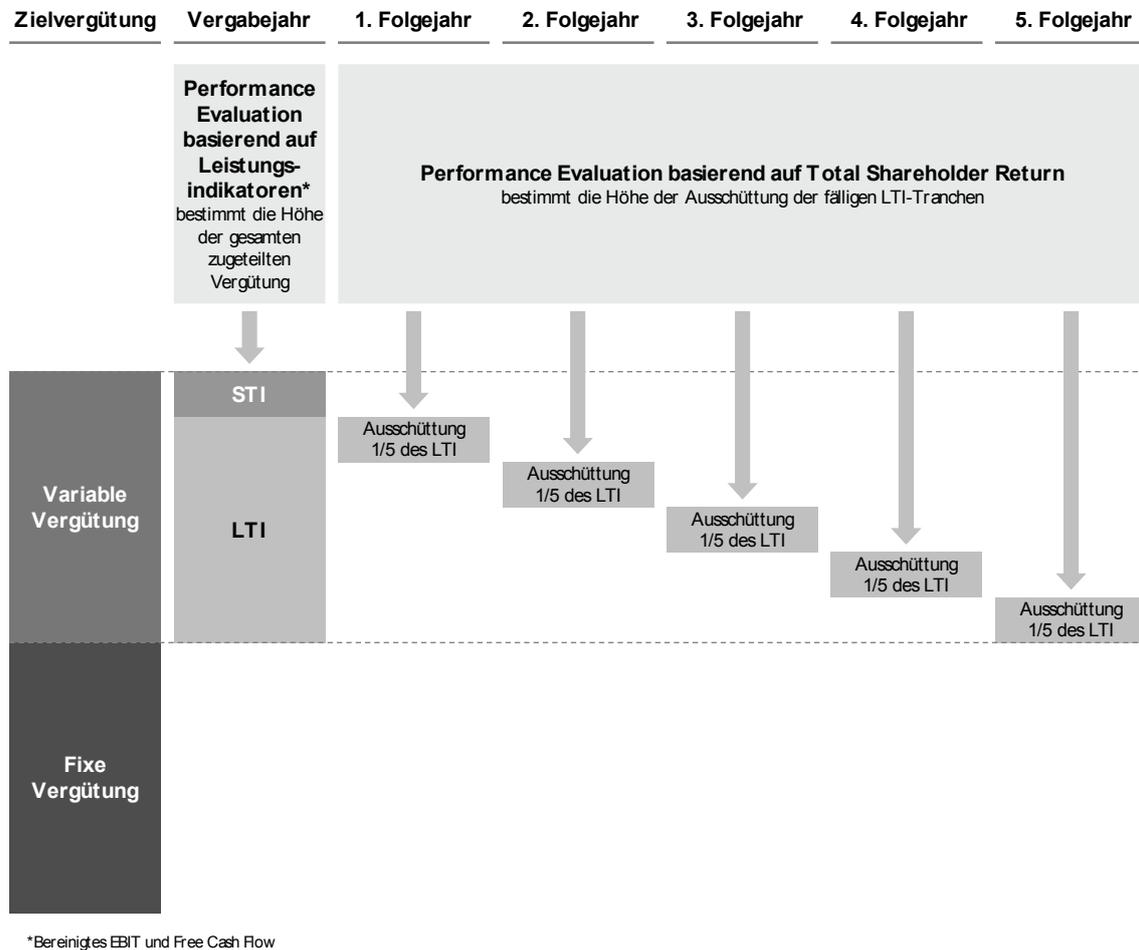
The remuneration must be sufficiently attractive to recruit and retain appropriately qualified persons for the assumption of responsibilities on the management board of a listed international company. Consequently, the remuneration system should be competitive and in line with the market.

The remuneration system should also be linked to sustainable actions with a long-term orientation and should support the Company's strategic goals.

The remuneration system should reflect recognised national and international standards for good corporate governance, including the provisions of the Austrian Stock Corporation Act and the rules of the Austrian Code of Corporate Governance. That means remuneration must be transparent and easily understandable.

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3. Remuneration of the Management Board members



3.1. Fixed remuneration

Every member of the Company's Management Board is entitled to fixed annual remuneration. This fixed basis salary is based on the scope of activity and responsibility on the Management Board and, in accordance with customary procedures in Austria, is paid in 14 instalments at the end of the month. The fixed remuneration is principally intended as compensation for the acceptance of a Management Board function and the related overall responsibility in line with the allocation of duties.

Fixed remuneration should also reflect market benchmarks for the remuneration of management board members. This market comparison, which should be based, above all, on other listed companies in Austria, should include the specific characteristics of the Zumtobel Group. In particular, these characteristics can be derived from the regional markets, the Group's business areas and specific corporate indicators.

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3.2. Variable remuneration

The Committee for Management Board Matters establishes variable target remuneration for the entire contract term of every Management Board member. This variable target remuneration equals a maximum of 50% of the total target remuneration (= fixed plus variable remuneration).

Allocation of variable remuneration

The performance evaluation for the allocation of variable remuneration in the year of distribution is based on two performance indicators which are weighted as follows:

- **Adjusted Group EBIT (weighting: 75%)**

Group EBIT (Earnings Before Interest and Taxes) represents the operating results for a period based on the consolidated financial statements. These results are shown before the deduction of interest and taxes to facilitate comparison with other companies. Adjusted EBIT is calculated by eliminating non-recurring special effects from the operating results for a period to show the company's pure operating performance. Adjusted Group EBIT provides information on a company's earning power and is important for protecting the company's competitive ability over the long-term.

- **Group free cash flow (weighting: 25%)**

Group free cash flow equals the total of cash flow from operating activities and cash flow from investing activities. It represents the cash flow available to service the providers of equity and debt and forms the basis for a dividend policy in the interests of shareholders.

If the performance evaluation shows 100% target attainment, the full amount of the target remuneration is paid. Above-average or below-average target attainment results in a corresponding increase or decrease in the variable remuneration for the year of distribution.

100% target achievement means that each of the agreed performance indicators (adjusted and free cash flow) have reached the level defined in the budget which was approved by the Supervisory Board. There is a floor up to -30% if the target attainment is missed (i.e. target attainment of 0%) and a cap at +30% if the target attainment is exceeded (i.e. target attainment of 200%).

If performance falls more than 30% below the agreed targets, the members of the Management Board will not receive any variable remuneration (no bonus) for the past financial year. If performance exceeds the agreed targets by more than 30%, the target attainment equals 200% and each member of the Management Board is entitled to the maximum variable remuneration.

Linear interpolation is used to establish the exact level between the floor and cap.

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The Zumtobel Group's budget is approved by the Supervisory Board at a meeting in April of each year for the following financial year. The targets can also be defined at a later Supervisory Board meeting if there are unusual and unforeseen events whose consequences cannot be estimated in spite of due diligence. The performance-based bonus for the following year is defined according to the above rules based on the budget data (adjusted EBIT and free cash flow) and finalised by the Remuneration Committee in agreement with each Management Board member.

The definition of the targets (budget data) also includes ambitious guidelines, such as the avoidance of incentives to take inappropriate risks.

Variable remuneration comprises a short-term component (Short-Term Incentive; STI) and a long-term component (Long-Term Incentive; LTI).

The STI equals 20-30% of variable remuneration and the LTI 70-80%, depending on the individual agreement with the Management Board member. The STI is paid out in full on the allocation date. The distribution of the LTI is spread over the five following years, whereby the amount of the individual payments is based on a performance evaluation at the time of distribution. The valuation of the individual LTI tranches ensures that remuneration reflects the short-term effects of management decisions as well as their long-term impact on the development of the Company.

Evaluation of accrued LTI tranches based on Total Shareholder Return (TSR)

The evaluation of the accrued LTI tranches from earlier years is based on the total shareholder return of Zumtobel Group AG, which is compared with the total shareholder return of selected, comparable companies (peer group). Total shareholder return is an indicator which measures the development of a share over a specific period and includes the dividends paid and changes in the share price during this period.

Similar to the allocation of variable remuneration, the evaluation of the accrued LTI tranches scheduled for payment in a specific year includes an incentive sensitivity of 30%. In other words, if the TSR of the Zumtobel Group is 30% or more higher than the peer group, the payment of the tranche is set at 200%; if the TSR is 30% or less than the peer group, the tranche is valued at 0% and no payment is made (e. g. a TSR which is 10% over the peer group results in the pay-out of 133.3% of the accrued LTI tranche).

The peer group has a broad distribution, both from a geographical and industrial perspective. The focus is placed, in particular, on geographical comparability and similarity of business activities.

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Current composition of the peer group of Zumtobel Group AG¹:

Geographic distribution	Share	Distribution by industry sector	Share
D/A/CH	35.6%	Lighting	68.1%
Northern and Western Europe	30.3%	Construction, same level of supply	20.8%
Southern and Eastern Europe	6.6%	Construction, upstream level of supply	11.0%
America	12.9%		
Asia & Pacific	14.5%		

Discretionary remuneration that exceeds the agreed performance target and reflects non-financial criteria can be granted under the STI as well as the LTI in justified cases. Sustainability targets, in particular, take priority here. This discretionary component equals a maximum of 20% of the target remuneration for each Management Board member. There is no legal entitlement to discretionary remuneration. Consequently, all components of the remuneration scheme used by Zumtobel Group AG meet the requirements of the Austrian Stock Corporation Act and the Austrian Code of Corporate Governance, above all Rule C-27.

Any discretionary bonus must be justified, evaluated and approved each year by the Committee for Management Board Matters. This committee is responsible for making recommendations on the remuneration system to the Supervisory Board, which takes the final decisions. The Committee for Management Board Matters is supported, when necessary, by an independent consulting firm.

The required return of variable remuneration components (clawback) is possible in agreement with C-Rule 27 of the ACoCG if this component was determined and paid on the basis of obviously incorrect data.

3.3. Other remuneration components

3.3.1. Accident insurance

Each Management Board member is entitled to participate in the collective accident insurance for work-related accidents which was concluded for the Management Board members. The related premiums are paid by the Company.

3.3.2. Health insurance

The Company can reimburse each Management Board member for the verified costs of global health insurance for the member and its family.

¹ The peer group has been adjusted several times since the introduction of the relative performance indicator based on total shareholder return in the 2014/15 financial year; it was last adjusted in 2019/20.

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3.3.3. D&O insurance

Every member of the Management Board is covered by the criminal law insurance policy and the pecuniary damage liability insurance ("D&O insurance") concluded by the Company. The related premiums are paid by the Company.

3.3.4. Company car

The Company provides each member of the Management Board with a company car in accordance with the current company car guideline issued by Zumtobel Group AG (upper middle class vehicle). This car can also be used for private purposes.

The Management Board member is responsible for all taxes and duties related to the non-monetary remuneration value of this private use.

4. Remuneration and employment conditions for the workforce

The Zumtobel Group follows a standardised remuneration scheme for the Management Board and employees which is intended to achieve and maintain high transparency and compensation that is performance-based and in line with the market. Consequently, the remuneration rules for the Management Board members reflect an appropriate balance to employees' remuneration and working conditions.

5. Term of office and termination of the contracts with the Management Board members

5.1. Term of office and termination

The term of the contracts (employment contracts) with the Management Board members generally equals three years. In any event, the contract term is coupled with the Management Board function.

A member of the Management Board can be dismissed before the end of its contract term by the Supervisory Board for an important reason as defined in § 75 (4) of the Austrian Stock Corporation Act. Important reasons include, above all, gross breach of duty, the inability to conduct the Company's business in an orderly manner or a vote of no confidence by the general meeting.

The Company is also entitled to terminate the employment contract prematurely in the event of dismissal if the Management Board member is responsible for circumstances which justify discharge in analogous application of § 27 of the Austrian Salaried Employees Act.

If the Management Board member is dismissed without fault for important reason, the Company can terminate the employment contract at the end of each month in keeping with a 12-month notice period.

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The Management Board contracts include a change of control clause. If the Company is taken over by a new majority shareholder, the members of the Management Board are entitled to terminate their contracts unilaterally. In this case, the members of the Management Board are entitled to receive the previously agreed fixed and variable remuneration up to the end of the originally agreed contract term, but for a maximum period of 12 months. The members of the Management Board have no other special claims or entitlements at the end of their function.

5.2. Consequences of termination

If a Management Board contract is terminated or cancelled, the Management Board member is entitled to receive the fixed and variable remuneration which would accrue between the premature end of the Management Board contract and the expiration of the agreed contract term – but up to a maximum of 12 months. The entitlement to variable remuneration remains in effect up to the effective termination date.

The Company can conclude a non-competition agreement with the members of Management Board for the period after the end of the Management Board function in exchange for the payment of fixed and variable remuneration for a maximum period of 12 months.

6. Procedures related to the Remuneration Policy

This Remuneration Policy was finalised by a resolution of the Supervisory Board on 22 June 2020 and is presented to the 44th general meeting of Zumtobel Group AG for voting.

The Management Board reports to the Remuneration Committee annually – if necessary, together with other persons – on the subject of remuneration. This committee can initiate a revision of the Remuneration Policy if necessary.

The Committee for Management Board Matters, which represents the Remuneration Committee, consists primarily of independent members of the Supervisory Board. They must report any conflicts of interest on their own initiative and, if necessary, abstain from voting.

The Committee for Management Board Matters must review the Remuneration Policy at least every fourth financial year – if necessary, together with internal and external experts – and evaluate whether a revision is required.

The Remuneration Committee must then make a recommendation to the Supervisory Board for the Remuneration Policy. The same applies to any premature material change in the Remuneration Policy.

The Supervisory Board must then pass a resolution on the Remuneration Policy and submit an appropriate resolution proposal to the general meeting.

The Remuneration Policy must then be presented to the general meeting for voting.

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7. Temporary deviation from the Remuneration Policy

A deviation from this Remuneration Policy is only possible under exceptional circumstances and on a temporary basis and may only involve Points 3.1 (Fixed remuneration) and 3.2 (Variable remuneration). Any deviations must be reported to the general meeting together with an explanation of the underlying exceptional circumstances.

Exceptional circumstances include, above all, the following:

- Material changes in the legal or regulatory environment
- A change in the basis for the evaluation of a non-financial performance criterion which makes it impossible to define the target attainment
- The unforeseen departure of a Management Board member, for whatever reason, when a comparable successor to this position within the framework of this Remuneration Policy does not appear possible
- Significant macroeconomic upheavals or changes, respectively war-like or terrorist events

The Remuneration Committee or the Supervisory Board must pass a resolution in such cases which confirms the exceptional circumstance and justifies the deviation from the Remuneration Policy as necessary for the Company's long-term development or the protection of profitability. If the Remuneration Committee or the Supervisory Board reaches this conclusion, it can establish contractual obligations between the Company and the members of the Management Board which deviate to a corresponding extent from the Remuneration Policy.

8. Material changes in the Remuneration Policy

Since this Remuneration Policy was approved for the first time on the basis of the Austrian Stock Corporation Amendment Act of 2019 ("Aktienrechts-Änderungsgesetz 2019", AktRÄG), no information is provided under this point.