

# Corporate Governance Report

## CORPORATE GOVERNANCE AT WOLFORD

Wolford is convinced that carefully implemented and actively practiced corporate governance makes an important contribution to strengthening the confidence of the capital markets in the company. In September 2002, the Austrian Working Group for Corporate Governance issued a framework for responsible corporate management and control that is designed to support the sustainable creation of value. The goal of this guideline is to protect the interests of all stakeholders whose welfare is linked to the success of the company.

The Austrian Corporate Governance Code ensures a high degree of transparency for all of the company's stakeholders. Wolford has been committed to the principles of the code since the fiscal year 2002/03. The Austrian Working Group for Corporate Governance is responsible for publishing the Corporate Governance Code. The latest version is available on the Wolford website and under [www.corporate-governance](http://www.corporate-governance). The Corporate Governance Code was last revised on July 1, 2012 to reflect the most recent amendments to the Austrian Stock Corporation Act and the Commercial Code, in particular regarding the remuneration system of the Management Board and the composition of the Supervisory Board.

The code is based on the regulations of Austrian stock corporation, stock exchange and capital market law as well as the recommendations of the European Commission on the duties of the Supervisory Board and the remuneration of Management Board members as well as the OECD guidelines for corporate governance. The code provides a framework for corporate management and control.

The guiding principles of the code are intended to strengthen the confidence of investors in the company and in Austria as a financial marketplace and include equal treatment for all shareholders, transparency, the independence of

the Supervisory Board, open communication between the Managing Board and Supervisory Board, the avoidance of conflicts of interest by bodies of the corporation and efficient control by the Supervisory Board and auditor. The code exceeds legal requirements, and compliance is voluntary. Observance of the code also means that the failure to meet C-Rules ("Comply or Explain") must be explained and disclosed. The Corporate Governance Report of Wolford AG is integrated into this annual report (pages 60 to 67).

In order to prevent insider trading, Wolford has issued a compliance guideline that implements the provisions of the Issuer Compliance Code published by the Austrian Financial Market Authority (FMA). Adherence to this guideline is monitored by the compliance officer.

Wolford's objective is to meet the expectations of capital market participants with respect to transparency and to provide shareholders with a true and fair view of the company. The Issuer Compliance Code of the Austrian Financial Market Authority (FMA) requires the simultaneous and identical communication of information. Wolford meets this requirement through the parallel distribution of current and share-relevant information on the company to analysts, investors and the media. This information is also published on the website at the same time for private shareholders.

The company has issued 5,000,000 zero par value common shares. There are no preferred shares or restrictions on the common shares. The principle of "one share – one vote" is therefore met in full. The Austrian Takeover Act ensures that every shareholder will receive the same price for his or her Wolford shares in the event of a takeover offer (mandatory tender). The shareholder structure is shown on page 59 of this annual report.

An internal audit department was established as a staff unit reporting directly to the Management Board to ensure the continuous optimization of risk management. This department reports to the Chief Financial Officer and

also has a direct reporting line to the chairwoman of the Supervisory Board's Audit Committee. Based on an audit plan approved by the Management Board and a Group-wide risk assessment of all corporate activities, the Management Board and the internal audit department regularly review operating processes to identify potential risks and opportunities for their improvement. Adherence to legal regulations, internal guidelines and processes is also controlled. To support the early identification and monitoring of risks, the Internal Control System is reviewed on a regular basis, improvements are implemented and the results are evaluated. The internal audit department reports to the Management Board and the Audit Committee of the Supervisory Board on the audit plan for the following year and the results of its activities.

Deloitte Audit Wirtschaftsprüfungs GmbH, Rengasse 1/Freyung, 1010 Vienna, was elected by the 26<sup>th</sup> Annual General Meeting (AGM) to audit the annual financial statements of Wolford AG and the consolidated financial statements of the Wolford Group for the 2013/14 financial year. There are no grounds for exclusion or prejudice that would be incompatible with a conscientious and objective audit by the Group auditor, Deloitte Audit Wirtschaftsprüfungs GmbH. In 2013/14, the fees for the audit of the consolidated financial statements and related services amounted to € 0.12 million. The mandatory disclosures required by § 243a of the Austrian Commercial Code are provided on page 84 of the Management Report.

## MANAGEMENT BOARD

Since the resignation of Holger Dahmen on January 10, 2014, the company is directed by Axel Dreher and Thomas Melzer.

### Axel Dreher



Axel Dreher, born in 1965, has been a member of the Management Board since March 1, 2013 and speaker of the Management Board since January 10, 2014. He was appointed for a term of office ending on February 29, 2016 and holds no functions outside the company.

He is responsible for Product Development, Production and Technology, Procurement, Distribution Logistics and Quality Management and, since January 10, 2014 for the distribution channels Wholesale and E-Commerce, Marketing incl. Product Management, Market Services and Merchandising.

Axel Dreher studied business administration and also received an MBA. From 2005 to February 2013, he served on the Management Board of Triumph International AG in Wiener Neustadt where he was responsible for commercial and operating activities. Mr. Dreher worked for the German Schaeffler Group/FAG Kugelfischer AG from 2001 to 2005, where he was in charge of Finance & Controlling, Human Resources Management, IT and Procurement for FAG Austria AG as well as Finance & Controlling and Procurement for the utility vehicle segment of FAG Kugelfischer AG. He then assumed global management responsibility for a business unit,

where his core duties involved Sales, Product Engineering, Purchasing and Production, and also included Management and Supervisory Board positions in Hungary and India. He gained additional management experience in Research & Development, Finance & Controlling and operative management in the automotive components supply industry during his work at ITT Automotive Europe (1995 to 1998) and BorgWarner (1998 to 2001).

### **Thomas Melzer**



Thomas Melzer, born in 1970, has been a member of the Management Board since September 14, 2012. He was appointed for a term of office ending on September 30, 2015 and holds no functions outside the company.

He is responsible for Finance, Internal Audit, Investor Relations, Legal Affairs, Human Resources and IT and, since January 10, 2014 also for the distribution channel Monobrand Management.

Thomas Melzer holds a degree in business administration. From 2008 to 2011 he served as the Chief Financial Officer and Deputy CEO of Brain Force Holding AG, an international IT service and software company that is listed on the Vienna Stock Exchange. His professional career began with Wienerberger AG, the world's largest

brick producer, where he worked in various areas from 1997 to 2008: from 1997 to 1999 in Controlling and Group Accounting, from 2000 to 2008 as the Head of Investor Relations and Corporate Communications. Mr. Melzer was a member of the Management Committee of Wienerberger AG from 2001 to 2008 and a member of the Supervisory Board of the Pipelife Group from 2007 to 2008. He was a member of the Management Board of the Cercle Investor Relations Austria (C.I.R.A.) for seven years, where he served as its chairman from 2004 to 2007.

### **Holger Dahmen**

Holger Dahmen, born in 1960, served on the Management Board from January 2004 up to his resignation on January 10, 2014.

He was responsible for Corporate Communications, Marketing and Sales as well as the coordination of Corporate Strategy and Planning.

### **Responsibilities and Working Methods of the Management Board**

The Management Board is responsible for managing the company in accordance with applicable laws, the articles of association of Wolford AG and the rules of procedure of the Management Board in order to protect the welfare of the company and the interests of all shareholders, employees and the general public. The rules of procedure for the Management Board were issued by the Supervisory Board and regulate the working methods and responsibilities of this corporate body. The Management Board manages the company jointly, independent of specifically assigned responsibilities. Issues of fundamental importance require the approval of the full Management Board. The rules of procedure for the Management Board also include a catalogue of measures that require the approval of the Supervisory Board.

There is a continuous exchange of information between the members of the Management Board. This exchange formally takes place in meetings that are held at least twice each month.

At regular meetings (at least once each quarter), the Management Board provides the Supervisory Board with timely and comprehensive information on all relevant issues related to the company's economic and strategic development,

including the risk position and risk management of the company and major subsidiaries. Important information is communicated immediately by the Management Board to the Chairman of the Supervisory Board. Additional meetings are scheduled as required, for example to discuss changes in strategy. The Supervisory Board therefore receives all information required to perform its advisory and control functions. In keeping with the Austrian Corporate Governance Code, the Management and Supervisory Boards also hold regular discussions outside the scheduled meetings to review the company's development and strategic orientation.

## **SUPERVISORY BOARD MEMBERS AND COMMITTEES**

The Supervisory Board of Woford AG consisted of four elected members up to the 26<sup>th</sup> AGM on September 17, 2013 and five members after that date as well as two representatives delegated by the Staff Council. The Supervisory Board held six meetings during the 2013/14 financial year. No Supervisory Board member was absent from more than half the meetings.

### **Emil Flückiger, Chairman since September 17, 2013**

Deputy Chairman up to the 26<sup>th</sup> AGM on September 17, 2013, then elected Chairman of the Supervisory Board. Independent; born in 1939; appointed to the 27<sup>th</sup> AGM (2013/14); first elected on December 14, 1992

- Certified Public Accountant, Management Consultant
- No additional functions in listed companies

### **Antonella Mei-Pochtler, Deputy Chairwoman**

Independent; born in 1958; appointed to the 31<sup>st</sup> AGM (2017/18); first elected on September 17, 2013

- Senior partner and Managing Director of the Boston Consulting Group in Vienna and Munich
- No additional functions in listed companies

### **Claudia Beermann, Member**

Independent; born in 1966; appointed to the 31<sup>st</sup> AGM (2017/18); first elected on September 17, 2013

- Chief Financial Officer of Falkensteiner Michaeler Tourism Group AG
- No additional functions in listed companies

### **Lothar Reiff, Member**

Independent; born in 1954; appointed to the 31<sup>st</sup> AGM (2017/18); first elected on September 17, 2013

- Managing Director of Lothar Reiff Consultancy
- No additional functions in listed companies

### **Birgit G. Wilhelm, Member**

Independent; born in 1975; appointed to the 30<sup>th</sup> AGM (2016/17); first elected on September 12, 2006

- Real estate manager
- No additional functions in listed companies

### **Theresa Jordis, Chairwoman up to September 7, 2013 (deceased)**

Independent; born in 1949; appointed to the 30<sup>th</sup> AGM (2016/17); first elected on September 3, 2003

- Founding partner of the law firm Dorda Brugger Jordis Rechtsanwälte GmbH

– Additional functions:

- Chairwoman of the Supervisory Board of Miba AG
- Deputy Chairwoman of the Supervisory Board of Erste Group Bank AG
- Member of the Supervisory Board of Österreichische Industrieholding AG

### **Werner Baldessarini, Member up to September 17, 2013**

Independent; born in 1945; appointed to the 26<sup>th</sup> AGM (2012/13); first elected on September 14, 2010

- No additional functions in listed companies

### **Anton Mathis, Member**

Delegated by the Staff Council; born in 1960; first delegated on December 16, 1999

**Peter Glanzer, Member**

Delegated by the Staff Council; born in 1954; first delegated on March 19, 2001

The Supervisory Board established five committees: Presidium, Personnel and Nomination Committee, Remuneration Committee, Audit Committee, Strategy and Marketing Committee.

The **Presidium**, which includes the Chairman Emil Flückiger and Deputy Chairwoman Antonella Mei-Pochtler of the Supervisory Board, represents the company's interests in all matters related to the Management Board.

The Presidium met five times during the reporting year to discuss current issues with the Management Board.

The Presidium serves as the **Personnel and Nomination Committee** for Wolford and is responsible for preparing all appointments to the Management and Supervisory Boards. Prior to the appointment of persons to these corporate bodies, the Personnel and Nomination Committee defines a requirement profile and prepares resolutions for the Supervisory Board or AGM based on a predefined selection process and succession planning. It also serves as a **Remuneration Committee** for the Management Board. In this function, the committee reviews the remuneration policy for the Management Board at regular intervals and ensures compliance with the related provisions of the Corporate Governance Code.

**Audit Committee**

The Audit Committee deals with the audit of the Group's consolidated financial statements and supervises financial accounting. It also monitors the effectiveness of the internal control, audit and risk management systems and reviews the independence and qualifications of the auditor based on peer reviews. The duties of the Audit Committee were fulfilled by the full Supervisory Board up to the 26<sup>th</sup> AGM, with Emil Flückiger serving as the committee chairman. The membership of the Audit Committee then changed to include Claudia Beermann (Chairwoman), Emil Flückiger, Antonella Mei-Pochtler and Anton

The Audit Committee met twice during the reporting year and dealt primarily with the following issues:

- The auditor's report on the audit of the annual financial statements for 2012/13
- The preparation of a recommendation to the Supervisory Board for the selection of an auditor for the 2013/14 annual and consolidated financial statements
- The company's development through the end of the first half of 2013/14
- The report by the Management Board on risk management of the Group
- The report by the internal auditor on the results of his audits

**Strategy and Marketing Committee**

This committee was established at the organizational Supervisory Board meeting that followed the 26<sup>th</sup> AGM. Its members are Lothar Reiff (Chairman), Antonella Mei-Pochtler and Birgit Wilhelm. The Strategy and Marketing Committee held no meetings during 2013/14.

## **RESPONSIBILITIES AND WORKING METHODS OF THE SUPERVISORY BOARD**

The Supervisory Board carries out its duties in accordance with legal regulations, the articles of association and its rules of procedure.

The Supervisory Board is responsible for decisions on issues of fundamental importance and the strategic orientation of the company. It establishes qualified committees in accordance with the specific circumstances of the company and the number of its members. These committees are designed to increase the efficiency of the Supervisory Board's work and improve the treatment of complex issues. However, issues delegated to the individual committees may still be handled by the full Supervisory Board. The chairperson of every committee regularly reports to the full Supervisory Board on the work of his or her committee. The Supervisory Board is also required to authorize a committee to make decisions in urgent cases.

Employee participation on the Supervisory Board and its committees is a legally regulated aspect of the Austrian Corporate Governance system. In accordance with the Austrian Labor Constitution Act, employees are entitled to delegate one representative to the Supervisory Board and its committees for every two Supervisory Board members (shareholder representatives) elected by the AGM. These employee representatives exercise this function on an honorary basis and can be recalled by the Staff Council at any time.

None of the Supervisory Board members has business or personal relationships with the company or the Management Board that could provide grounds for a material conflict of interest and therefore influence the behavior of the respective Supervisory Board member. The company maintains business relationships with individual members of the Supervisory Board, which are billed at ordinary market rates and are not material in total. In particular, Lothar Reiff advises Woford on issues relating to the renewal of market communications, the design of the collection, the organizational structure of design and product development and the reduction of the time-to-market. A market-based, but immaterial fee was agreed for these services and is billed according to the actual work performed.

All members of the Woford AG Supervisory Board are considered independent according to the criteria defined by the Austrian Corporate Governance Code. Statements to this effect were submitted by all Supervisory Board members. In accordance with § 95 of the Austrian Stock Corporation Act, the Supervisory Board's main responsibility is to supervise the work of the Management Board. The current Supervisory Board meets this responsibility in full. Woford AG has a free float component of more than 20% and less than 50%. Since the 26<sup>th</sup> AGM, the Supervisory Board has included at least three members (Antonella Mei-Pochtler, Claudia Beermann and Lothar Reiff) who are neither shareholders with an investment of more than 10% in the company nor representatives of the interests of a large shareholder.

Woford AG has not granted any loans to members of the Supervisory or Management Boards.

The Internal Audit department of Woford AG evaluates compliance with the rules of the code each year based on a questionnaire developed by the Austrian Working Group for Corporate Governance. Based on the results of this evaluation, the deviations from the C-Rules are explained below.

## **DEVIATIONS FROM C-RULES OF THE CORPORATE GOVERNANCE CODE**

### C-Rule 16, Question 2

The Supervisory Board started the search for a CEO following the resignation of Holger Dahmen from the Management Board on January 10, 2014. This search was still in progress at the end of the 2013/14 financial year.

### C-Rule 36, Question 3

The Supervisory Board did not carry out a self-evaluation in 2013/14.

### C-Rule 83, Question 1

A management letter from the auditor that also dealt with specific aspects of the accounting-related processes in the internal control system was presented to the Chairman of the Supervisory Board and discussed in detail by the full Supervisory Board. The auditor's engagement did not cover the evaluation of the effectiveness of the risk management system.

### Rule 60, Question 1

Woford AG has not developed a specific plan to support the advancement of women to positions on the Management Board, Supervisory Board or key functions in the company and its subsidiaries. The selection process is designed to ensure the appointment of the best candidates to vacant positions, independent of gender, age, religion and ethnic origin. Women currently hold various key management positions in Woford AG and its subsidiaries. Attractive part-time working models have been created to improve the work-life balance for women returning from maternity leave. Women comprise roughly 80% of the Woford workforce due to the focus on the operation of its own retail business and the

product portfolio with its particular appeal to women. Three of the five elected shareholder representatives on the Supervisory Board of Wolford AG are women.

## REMUNERATION REPORT

The Remuneration Report summarizes the principles applied in determining the remuneration for the Management Board and explains the amount and structure of these payments. It also describes the underlying principles and amount of the Supervisory Board's remuneration. The Supervisory Board delegated the determination of remuneration for the Wolford Management Board to the Presidium, which also serves as the Remuneration Committee.

In accordance with the Austrian Stock Corporation Act, the members of the Management Board are appointed for a specific term of office. The employment contracts for these persons were concluded for the defined period of time and cover the amount and structure of remuneration. The goal of the remuneration system is to provide the members of the Management Board with compensation that is appropriate in national and international comparison and reflects the scope of their functions and responsibilities.

The remuneration system for the Management Board comprises a fixed and a variable component. The fixed component reflects the

respective area of responsibility and, according to standard practice in Austria, is paid in 14 monthly installments. The variable component is based on the success of the company and the performance of the individual Management Board member and is linked, in particular, to the attainment of quantitative targets and sustainable, long-term and strategic goals. The total amount of remuneration represents appropriate compensation for the duties and responsibilities of the individual Management Board member as well as the position of the company and common industry practice.

The variable component of Management Board remuneration is based on the following four factors:

- the attainment of a target for revenue growth
- the attainment of budgeted EBIT for the financial year
- an increase in the shareholder value based on growth of the Wolford share price
- and a sustainable, long-term and strategic goal

For the Management Board members, the four above-mentioned variable components are capped at roughly 85% of fixed remuneration.

The scheduled remuneration for the members of the Management Board amounted to € 1.33 million in 2013/14 (2012/13: € 1.11 million). Of this total, 79% represent fixed (2012/13: 81%) and 21% variable remuneration (2012/13: 19%).

<b>Scheduled Management Board Remuneration in €</b>	<b>Fixed</b>	<b>Variable</b>	<b>2013/14 Total</b>	<b>2012/13 Total</b>
Axel Dreher (since 1.3.2013)	312,611	109,972	422,583	57,255
Thomas Melzer (since 1.10.2012)	352,806	75,725	428,531	212,812
Holger Dahmen (up to 31.1.2014)	387,971	93,612	481,583	629,236
Peter Simma (up to 14.9.2012)	0	0	0	208,340
<b>Total</b>	<b>1,053,388</b>	<b>279,309</b>	<b>1,332,697</b>	<b>1,107,643</b>

On the termination of a Management Board contract, the respective member is entitled to severance compensation in analogous application of the Austrian Salaried Employees Act. On January 31, 2014 the former chairman of the Management Board, Holger Dahmen, received severance compensation of € 797,366 upon his resignation.

There are no pension fund agreements or defined benefit commitments for the active members of the Woldorf Management Board. Expenses of € 0.40 million were recognized in 2013/14 for former members of the Management Board (2012/13: € 0.66 million).

A member of the Management Board may only take on additional duties outside the company with the approval of the Supervisory Board. This ensures that neither the time involved nor the remuneration received will lead to a conflict of interest with the individual's responsibilities on behalf of the company. No remuneration is paid for positions in Woldorf's subsidiaries.

The AGM determines the remuneration for the elected Supervisory Board members and

attendance fees. The 27<sup>th</sup> Annual General Meeting will be asked to vote on a new remuneration structure for the 2013/14 financial year. The remuneration structure for Supervisory Board members will be defined hereafter as follows:

Remuneration for the function as well as for preparing and attending the four regular Supervisory Board meetings each financial year: Chairman € 50,000, Deputy Chairwoman € 35,000, members € 25,000

Members of committees furthermore receive:

- Audit Committee with two meetings per financial year: Chairwoman € 5,500 and members € 5,000 each
- Strategy and Marketing Committee with two meetings per financial year: Chairman € 5,500 and members € 5,000 each
- Additional extraordinary meetings with all members of the Supervisory Board are remunerated with € 4,000 per member and meeting

The remuneration for the reporting year is thus expected to total € 0.19 million (2012/13: € 0.08 million) and is distributed as follows:

<b>Supervisory Board Remuneration in €</b>	<b>2013/14 <sup>1)</sup></b>	<b>2012/13</b>
Emil Flückiger, Chairman (since 17.9.2013)	71,000	21,550
Antonella Mei-Pochtler, Deputy Chairwoman (since 17.9.2013)	32,000	0
Claudia Beerman (since 17.9.2013)	19,250	0
Lothar Reiff (since 17.9.2013)	16,500	0
Birgit G. Wilhelm	35,500	15,050
Theresa Jordis (Chairwoman up to 7.9.2013)	0	26,550
Werner Baldessarini (up to 17.9.2013)	19,000	15,050
<b>Total</b>	<b>193,250</b>	<b>78,200</b>

1) The proposal for the new remuneration structure for the Supervisory Board will be voted on at the 27<sup>th</sup> AGM.

Payments for services above and beyond the above-mentioned Supervisory Board duties are described in the Corporate Governance Report on page 65. There are no pension fund obligations for members of the Woldorf Supervisory Board. Woldorf has concluded directors and officers (D&O) insurance with coverage of € 25 million for the members of the Supervisory and Management Boards, key employees and

the managing directors of subsidiaries. The company carries the cost of this insurance. The purchase and sale of Woldorf shares by the members of the Management Board and Supervisory Board are reported to the Austrian Financial Market Authority in accordance with § 48 of the Austrian Stock Exchange Act. No directors' dealings were reported in 2013/14.