

Corporate Governance Report 2012

The Austrian Code of Corporate Governance (ACCG) provides Austrian stock corporations with a framework for the management and supervision of companies. This framework includes internationally recognized standards for good corporate governance as well as relevant regulations of Austrian stock corporation law.

The code aims to ensure a responsible management and control of companies and corporate groups oriented towards the sustainable and long-term value creation. It is intended to create a high degree of transparency for all stakeholders of the company.

Declaration of Commitment

Lenzing AG respects the Austrian Code of Corporate Governance. For the first time, the company committed itself in 2010 to complying with the stipulations contained in the code. The Supervisory Board also unanimously resolved to fully adhere to the ACCG. The code is available on the Internet at www.corporate-governance.at in the currently valid version (July 2012). Lenzing AG is required to prepare and publish a Corporate Governance Report in accordance with Rule 60 of the ACCG.

This Corporate Governance Report is publicly available on the Website of Lenzing AG (C-Rule 61 ACCG).

Corporate bodies of Lenzing AG

1) Management Board

Peter Untersperger (born 1960)

Chairman of the Management Board

First appointed: January 1, 1999

Current mandate expires: March 31, 2016

Responsibilities: Business Unit Engineering, Corporate Communications, Global Human Resources, Internal Audit, Mergers & Acquisitions, Wood Purchasing

Supervisory Board mandates in other companies: none

Friedrich Weninger (born 1957)

Member of the Management Board

First appointed: January 1, 2009

Current mandate expires: December 31, 2014

Responsibilities: Business Unit Textile Fibers, Business Unit Nonwoven Fibers, Business Unit Pulp, Business Unit Energy, Business Unit Plastics, Business Unit Filaments, Global Safety, Health & Environment, Environment Lenzing Site, Infrastructure Lenzing Site, Business Planning

Supervisory Board mandates in other companies: none

Corporate Governance Report 2012

Thomas G. Winkler (1963)

Member of the Management Board

First appointed: April 1, 2010

Current mandate expires: March 31, 2016

Responsibilities: Global Finance, Global Information Technology, Global Purchasing, Investor Relations, Legal Management, Risk Management, Group Compliance

Supervisory Board mandates in other companies: Österreichische Industrieholding AG

The Management Board consists of three members, and is responsible for managing the business operations of Lenzing Aktiengesellschaft in accordance with prevailing legal regulations, the Articles of Association and the internal rules of procedure applying to the Management Board. The distribution of responsibilities among the members of the Management Board is determined based upon the organizational plan stipulated in the internal rules of procedure, which also regulates the mode of cooperation among the Management Board members. Furthermore, the Management Board is required to fully comply with the rules stipulated in the Austrian Code of Corporate Governance.

In July 2012 the Management Board mandate of Thomas G. Winkler was extended for a further three-year period. In September 2012 the mandate of Peter Untersperger, Chairman of the Management Board, was also extended until March 2016.

2) Supervisory Board

2.1. Composition

Michael Junghans (born 1967)

Since March 29, 2011: Chairman (up to March 29, 2011: Deputy Chairman)

First appointed: April 30, 2010

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2012 financial year

Supervisory Board mandates in other companies: Semperit AG Holding, AMAG Austria Metall AG

Veit Sorger (born 1942)

Since March 29, 2011: Deputy Chairman

First appointed: June 4, 2004

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year

Supervisory Board mandates in other companies: Mondi AG (Chairman), Semperit AG Holding (Chairman), Constantia Industries AG (Chairman), GrECo International Holding AG

Helmut Bernkopf (born 1967)

First appointed: April 23, 2009

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year

Supervisory Board mandates in other companies: CA Immobilien Anlagen AG, Schöllerbank AG (Chairman), Österreichische Kontrollbank AG

Josef Krenner (born 1952)

First appointed: April 23, 2009

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year

Supervisory Board mandates in other companies: Voestalpine AG, Flughafen Linz GmbH, B & C Industrieholding GmbH, BioMed-zet Life Science GmbH, AMAG Austria Metall AG (Chairman)**Martin Payer** (born 1978)

First appointed: June 15, 2007

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year

Supervisory Board mandates in other companies: none**Patrick Prügger** (born 1975)

First appointed: March 29, 2011

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2013 financial year

Supervisory Board mandates in other companies: Semperit AG Holding, AMAG Austria Metall AG, VA Intertrading AG**Andreas Schmidradner** (born 1961)

First appointed: June 12, 2008

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year

Supervisory Board mandates in other companies: Semperit AG Holding, VAMED AG**Astrid Skala-Kuhmann** (born 1953)

First appointed: April 19, 2012

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year

Supervisory Board mandates in other companies: none**Walter Lederer** (born 1961)

First appointed: June 27, 2012

Mandate expired on April 19, 2012

Supervisory Board mandates in other companies: none

Supervisory Board members designated by the Works Council

Rudolf Baldinger (born 1954)

First appointed: 1998

Audit Committee, Nomination Committee, Strategy Committee

Gerhard Ratzesberger (born 1951)

First appointed: 2008

Johann Schernberger (born 1964)

First appointed: 2001

Georg Liftinger (born 1961)

First appointed: 2008

Audit Committee, Strategy Committee

Corporate Governance Report 2012

2.2. Independence (C-Rules 53 and 54 ACCG)

The Supervisory Board has adopted the guidelines relating to the independence of its members pursuant to Appendix 1 of the Austrian Code of Corporate Governance. All members of the Supervisory Board have declared themselves to be independent from the company and the Management Board.

Pursuant to C-Rule 54 of the ACCG, the Supervisory Board members Veit Sorger, Helmut Bernkopf and Josef Krenner declared in the 2012 financial year that they were neither shareholders with a stake of more than 10% in the company nor did they represent such a shareholder's interests.

2.3. Mode of operation of the Supervisory Board

To fulfill its responsibility of overseeing the work of the Management Board, the Supervisory Board of Lenzing AG convenes at least once every quarterly period for a meeting. A total of five Supervisory Board meetings took place during the year under review (C-Rule 36 ACCG).

In the 2012 financial year the Supervisory Board of Lenzing AG constituted four committees consisting of its own members (C-Rules 34 and 39 ACCG):

2.3.1. Audit Committee

The Audit Committee carries out the responsibilities assigned to it pursuant to Section 92 Para. 4a Austrian Stock Corporation Act. This stipulates that these responsibilities are primarily in auditing and preparing the adoption of the annual financial statements and the evaluation of the proposal made by the Management Board on the distribution of profits as well as the Management Report. The Audit Committee also examines the consolidated financial statements of the Group and the Group Management Report and makes a recommendation for the selection of the auditors. Furthermore, the Audit Committee examines the effectiveness of the internal control system (ICS), internal auditing and the risk management system of the company. The committee is required to report to the Supervisory Board about its activities. In the 2012 financial year the Audit Committee convened three times.

Members: Michael Junghans (Chairman), Veit Sorger, Patrick Prügger, Rudolf Baldinger, Georg Liftingner

2.3.2. Nomination Committee

The Supervisory Board has established a Nomination Committee which makes recommendations to the Supervisory Board on filling new or vacant positions on the Management Board, and also deals with issues relating to succession planning. Moreover, the committee makes proposals to the Annual Shareholders' Meeting for filling vacant positions on the Supervisory Board. Four meetings of the Nomination Committee were held in the 2012 financial year, which focused on extending the Management Board contracts of Peter Untersperger and Thomas G. Winkler.

Members: Michael Junghans (Chairman), Veit Sorger, Rudolf Baldinger; non-voting guest: Georg Liftingner

2.3.3. Remuneration Committee

The Supervisory Board has set up a Remuneration Committee which deals with the terms and conditions of employment contracts with Management Board members, ensures compliance

with C-Rules 27, 27a and 28 and also assesses the remuneration policy with respect to Management Board members in regular intervals. The Remuneration Committee convened eight times during the 2012 financial year, focusing in particular on the remuneration model applying to the Management Board starting in 2013.

Members: Michael Junghans (Chairman), Veit Sorger

2.3.4. Strategy Committee

The Supervisory Board established a Strategy Committee for the first time during the year under review. This committee focuses on the business strategy of the company and the related company-specific key performance indicators in cooperation with the Management Board. Moreover, the measures designed to implement the strategy are monitored by the Management Board, which also carried out an annual review. Two meetings of the Strategy Committee were held in the 2012 financial year.

Members: Michael Junghans (Chairman), Veit Sorger, Andreas Schmidradner, Rudolf Baldinger, Georg Liftingner

2.4. Cooperation of the Management Board and Supervisory Board

The Management Board reports to the Supervisory Board on fundamental issues relating to the business policies of the company and the Group, as well as the future development of the financial position, financial performance and cash flows. In addition, the Management Board regularly informs the Supervisory Board about business developments and the current situation of the company and the Group in comparison to forecasts, taking the future development into account. The Management Board and Supervisory Board also discuss the long-term growth objectives of the Lenzing Group in a separate strategy meeting.

2.5. Self-evaluation of the Supervisory Board

For the first time, the Supervisory Board carried out a self-evaluation in the 2012 financial year in accordance with C-Rule 36 ACCG in the form of a questionnaire which focused on the effectiveness of the control functions of the Supervisory Board as well as the compliance with the Management Board's obligations to provide information to the Supervisory Board. The results of the self-evaluation show the activities of the Supervisory Board of Lenzing AG are given good marks. Furthermore, a list of measures designed to enhance the efficiency of the Supervisory Board's work was prepared.

3) Principles of Management Board and Supervisory Board remuneration (C-Rule 30 ACCG)

The remuneration models for the Management Board employment contracts were harmonized over the last two years, and the variable salary components in these contracts were expanded. The remuneration of all three Management Board members consists of a fixed and a variable performance-oriented salary component. In addition, the Management Board is given a long-term bonus bank model. The maximum bonus is limited to 148% of the fixed annual salary in the future. A stock option program or a program featuring the preferential transfer of shares does not exist.

Corporate Governance Report 2012

- The short-term profit sharing scheme for the Management Board is primarily determined by the criteria of the Group net profit for the year and overall profitability as well as the cash flow and individual qualitative goals.
- With respect to the 2012 financial year, the dividends paid are used as the basis for determining the long-term share of the bonus. Starting in 2013, the targets used to determine the long-term bonus bank model are as follows: 2/3 of the bonus bank model will be calculated on the basis of the performance criteria of the Lenzing Group (sales, EBIT margin, total shareholder return) over a period of several years in comparison to a peer group, and 1/3 will consist of the achievement of qualitative targets. Payment will be distributed over a three-year period.
- Furthermore, the Management Board is also entitled to the company making contributions to a pension fund. This amounted to TEUR 96 in the 2012 financial year (2011: TEUR 94).
- Company pension benefits as well as severance payments and entitlements to benefits in case an employment contract of a board member is terminated are determined by valid federal regulations.
- The company has taken out a Directors and Officers Liability Insurance (D&O) policy as well as legal protection insurance for the Management Board members.

Salaries of Management Board members of Lenzing AG:

Remuneration of the management board							EUR '000	
	Peter Untersperger		Friedrich Weninger		Thomas Winkler		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Fix current emoluments	484	468	433	391	405	390	1,322	1,249
Variable current emoluments	696	2,240	525	1,539	488	1,391	1,709	5,170
Total	1,180	2,708	958	1,930	893	1,782	3,032	6,419

The salaries of former members of the Management Board of Lenzing AG or their surviving dependants amounted to TEUR 895 in 2012 (2011: TEUR 860).

The principles underlying the remuneration paid to members of the Supervisory Board are laid down in the Articles of Association of Lenzing AG (Section 13), which are published on the Website of the company. In accordance with the Articles of Association, the Supervisory Board will be granted in 2012 1.5% of the Group net profit for the year 2011 but a maximum of 2.5 times their annual fixed remuneration, taking account of the stipulations contained in Section 98 Austrian Stock Corporation Act. All Supervisory Board members are paid the same amount, with the exception that the Chairman is given an additional 60% and the Deputy Chairman an additional 30%. The annual fixed remuneration totals EUR 7,082. The amounts are adjusted to the consumer price index.

On balance, total remuneration for the members of the Supervisory Board amounted to EUR 222,998 for the 2011 financial year, which was resolved upon at the Annual Shareholders' Meeting 2012 and subsequently paid.

Remuneration of Supervisory Board members of Lenzing AG:

Michael Junghans	EUR 37,867
Veit Sorger	EUR 30,431
Helmut Bernkopf	EUR 24,788
Josef Krenner	EUR 24,788
Martin Payer	EUR 24,788
Patrick Prügger	EUR 18,879
Andreas Schmidradner	EUR 24,788
Astrid Skala-Kuhmann (mandate began April 2012)	-
Hermann Bell (mandate ended March 2011)	EUR 9,562
Walter Lederer (mandate ended April 2012)	EUR 24,788
Rudolf Baldinger	EUR 679
Georg Liftinger	EUR 679
Gerhard Ratzesberger	EUR 272
Johann Schernberger	EUR 679

4) Promoting the career advancement of women to Management Board, Supervisory Board and executive positions (L-Rule 60)

Lenzing AG observes a strict equal opportunity policy and actively promotes the career development of women in management positions in all business areas, in particular by increasingly selecting women to take part in internal management training programs.

During the year under review Ms. Skala-Kuhmann was elected to serve on the Supervisory Board.

In recent years the percentage of women holding qualified positions has steadily increased. Moreover, inasmuch as it is made possible by the respective position, the company promotes the compatibility of career and family life on the basis of flexible working time models and the possibility to work at home.

5) Compliance

In addition to the existing "Lenzing Principles" which serve as an orientation guide for the issues of value creation, entrepreneurial spirit, accountability, openness and honesty as well as our clear commitment to sustainable corporate management, Lenzing also developed a Code of Conduct during the reporting year. This Code of Conduct contains binding rules for all employees pertaining to the most important issues, and promotes moral and ethical behavior. A Group Compliance Officer monitors adherence to the code.

6) Director's Dealings

The disclosure of share purchases and sales by members of the Management Board and Supervisory Board is carried out in accordance with valid provisions contained in the Austrian Stock Exchange Act. A link to the Website of the Financial Market Authority can be found on the Website of Lenzing AG.

Corporate Governance Report 2012

7) Risk management and internal auditing

The effectiveness of Lenzing's risk management system was evaluated by the auditor Deloitte Audit in accordance with Rule 83 ACCG and issued an unqualified opinion. The Management Board was informed about the results. Furthermore, the Head of Risk Management annually reports about current risks during a meeting of the Audit Committee.

The Corporate Center Risk Management and Internal Audit reports directly to the Management Board. The annual auditing plan is defined in close collaboration with the Management Board and the Audit Committee. Similarly, the Head of Internal Audit reports to the Audit Committee about the key audit findings.

8) External evaluation

In accordance with Rule 62 ACCG, Lenzing submits to an external evaluation of its compliance with the C-Rules and R-Rules of the Austrian Code of Corporate Governance. Lenzing contracted KMPG Austria AG to evaluate its Corporate Governance Report 2012. The external evaluation concluded that the declaration provided by Lenzing AG committing the company to complying with the Austrian Code of Corporate Governance (July 2012 version) gives a true and fair view of the actual situation. The external evaluation report can be viewed on the company's Website at www.lenzing.com.

Lenzing Aktiengesellschaft

Lenzing, January 31, 2013

The Management Board

Peter Untersperger

Friedrich Weninger

Thomas G. Winkler