

CORPORATE GOVERNANCE REPORT 2013

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

The division of responsibilities of the members of Lenzing's Management Board during the 2013 financial year was as follows:

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

Thomas G. Winkler (born 1963)

Member of the Management Board

First appointed: April 1, 2010

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

In mutual agreement with the Supervisory Board, Thomas G. Winkler stepped down from his position on the Management Board effective December 31, 2013.

Against the backdrop of a changed market environment, Lenzing proactively launched a reorganization project designed, in particular, to strengthen the sales and marketing organization. Within the framework of this initiative, the responsibilities assigned to the individual Management Board members were redefined effective January 1, 2014. In the January 31, 2014 meeting of the Supervisory Board of Lenzing AG, Robert van de Kerkhof was appointed to serve as a Member of the Management Board and Chief Commercial Officer (CCO) for a period of three years starting on May 1, 2014.

The Management Board manages 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.

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 2015 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

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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), Binder AG, 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, Schoellerbank AG (Chairman), Oesterreichische Kontrollbank AG, Card Complete Service Bank AG, Bausparkasse Wüstenrot AG, BWA Beteiligungs- und Verwaltungs-Aktiengesellschaft

Franz Gasselsberger (born 1959)

First appointed: April 24, 2013

Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2015 financial year

Supervisory Board mandates in other companies: Bank für Tirol und Vorarlberg AG (Chairman), BKS Bank AG, voestalpine AG, AMAG Austria Metall 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 2015 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

Supervisory Board members designated by the Works Council:

Rudolf Baldinger (born 1954)

First appointed 1998

Georg Liftingner (born 1961)

First appointed 2008

Ing. Gerhard Ratzesberger (born 1951)

First appointed 2008

Johann Schernberger (born 1964)

First appointed 2001

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 2013 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 seven Supervisory Board meetings took place during the year under review (C-Rule 36 ACCG).

In the 2013 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

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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 2013 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. Two meetings of the Nomination Committee were held in the course of the 2013 financial year, which focused on the premature termination of the Management Board contract of Thomas G. Winkler as well as the search and selection process for two Management Board candidates (CFO, CCO).

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 2013 financial year, focusing in particular with evaluating the performance of the Management Board in the 2012 financial year and performance targets for 2013, the termination of the Management Board contract of Thomas G. Winkler and other remuneration issues relating to the Management Board.

Members: Michael Junghans (Chairman), Veit Sorger

2.3.4. Strategy Committee

The Supervisory Board established a Strategy Committee concerning itself with the business strategy of the company and monitoring the related company-specific key performance indicators. In 2013 the Strategy Committee primarily dealt with the issue of more intensively focusing the company's business on specialty fibers. Furthermore, the measures designed to implement the strategy are also subject to ongoing monitoring and an annual review by the Management Board. Three meetings of the Strategy Committee were held in the 2013 financial year.

Members: Michael Junghans (Chairman), Astrid Skala-Kuhmann, 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 and financial performance of the Lenzing Group. 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 second time, the Supervisory Board carried out a self-evaluation in the 2013 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. The Supervisory Board decided to follow up on several suggestions which were made during the first self-evaluation process. 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 in the 2013 financial year 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 150% of the fixed annual salary in the future. A stock option program or a program for the beneficial transfer of shares does not exist.

- 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 2013 financial year, 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) evaluated over a period of several years and compared 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 108 in the 2013 financial year (2012: TEUR 100).

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- 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 (Company Employee Pension Act).
- In the case of the premature termination of a Management Board contract, the conditions stipulated in Rule 27a ACCG are adequately taken into account.
- 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.

Amount expended for the current salaries of active Management Board members of Lenzing AG:

TEUR

	Peter Untersperger		Friedrich Weninger		Thomas Winkler		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Fixed current remuneration	566	484	434	433	435	405	1,434	1,322
Variable current remuneration	318	548	352	357	39	476	708	1,381
Termination pay	0	0	0	0	1,620	0	1,620	0
Total	884	1,032	785	790	2,094	880	3,763	2,703

The amounts reported for Mr. Untersperger and Mr. Weninger include variable salary components which were substantiated in previous years and recognized as an expense once the last condition was met in 2013.

In addition, a total of TEUR 300 was recognized as an expense in the 2013 financial year (2012: TEUR: 0) for entitlements derived from long-term bonus bank models (other long-term employee benefits). Remuneration for former members of the Lenzing Management Board or their surviving dependants amounted to TEUR 927 in 2013 (2012: TEUR 895).

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 members of the Supervisory Board are granted an annual remuneration corresponding to their responsibilities as well as the overall situation and financial position of the company.

The remuneration of the Supervisory Board members for the 2012 financial year as resolved upon by the Ordinary Shareholders' Meeting of Lenzing AG held on April 24, 2013 amounted to the following:

- a. EUR 30,000 for the Chairman of the Supervisory Board
- b. EUR 25,000 for the Deputy Chairman of the Supervisory Board
- c. EUR 20,000 for each other member of the Supervisory Board
- d. EUR 2,500 for each member of a Supervisory Board committee

In addition, each Supervisory Board member receives an attendance fee for each Supervisory Board meeting amounting to EUR 1,000, and each member of a Supervisory Board committee is granted an attendance fee of EUR 500 for each committee meeting attended.

Accordingly, the total remuneration paid to the members of the Supervisory Board amounted to EUR 259,724. The remuneration paid during the 2013 financial year to the individual members is listed below:

Michael Junghans	EUR	53,527
Veit Sorger	EUR	48,522
Helmut Bernkopf	EUR	24,027
Josef Krenner	EUR	24,027
Martin Payer	EUR	24,022
Patrick Prügger	EUR	29,022
Andreas Schmidradner	EUR	28,527
Astrid Skala-Kuhmann	EUR	17,883
Hermann Bell (mandate ended March 2011)	EUR	4
Walter Lederer (mandate ended April 2012)	EUR	7,139
Franz Gasselsberger (mandate began April 2013)	EUR	-
Rudolf Baldinger	EUR	872
Georg Liftinger	EUR	1,008
Gerhard Ratzesberger	EUR	572
Johann Schernberger	EUR	572

4) Promoting the career advancement of women on the 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 recent years, the percentage of women holding qualified positions in the company has steadily increased. This includes Ms. Astrid Skala-Kuhmann, who has served on the Supervisory Board since 2012. 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

After establishing a separate staff unit, the "Group Compliance Office", and developing a Code of Conduct in 2012, the code was adopted as binding rules of behavior by all operating units and subsidiaries. The Code of Conduct was translated into all five local languages, and actively given to all active and newly-hired employees. A Group-wide compliance management system (CMS) was developed, communicated and implemented within the context of the Lenzing

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Group Portal (Intranet). In addition to a help platform and various information systems, employees also have the opportunity to report suspected violations of compliance rules. The Group Compliance Officer carried out comprehensive compliance training for top executives and senior staff in all operating units and subsidiaries. About 200 employees were given the relevant training. The focus of the classroom-based instruction was CMS as well as anti-corruption issues and competition law. A series of guidelines were issued, including procedural instructions related to house searches. A report on compliance activities at Lenzing AG is submitted once a year to the Audit Committee according to section 18a. ACCG.

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.

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 Internal Audit Department reports directly to the Management Board. The annual auditing plan is determined 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 on a regular basis at least every third year. Lenzing contracted KPMG Austria AG to evaluate its Corporate Governance Reports 2012 and 2013. The external evaluation concluded in both cases 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, March 3, 2014