

# Corporate Governance Report 2016

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# Corporate Governance Report 2016

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

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

## Declaration of Commitment

Lenzing AG respects the ACCG and, for the first time in 2010, committed itself to compliance with the documented provisions. The Supervisory Board also unanimously resolved to fully adhere to the ACCG. The current version of the code (January 2015) is available in the Internet under [www.corporate-governance.at](http://www.corporate-governance.at). In accordance with L-Rule 60 of the ACCG, Lenzing AG is required to prepare and publish a Corporate Governance Report. The Corporate Governance Report of Lenzing AG also represents the consolidated Corporate Governance Report for the Lenzing Group.

This Corporate Governance Report is published on the website of Lenzing AG in accordance with C-Rule 61 of the ACCG (<http://www.lenzing.com/investors/Corporate-governance/Reports.html>).

## The Corporate Bodies of Lenzing AG

The division of responsibilities among the members of Lenzing's Management Board during the 2016 financial year was as follows:

### Management Board

- **Stefan Doboczky (born 1967)**  
Chairman of the Management Board, Chief Executive Officer  
First appointed: June 1, 2015  
Current term of office ends: May 31, 2018  
Responsibilities: Regional Area AMEA, Regional Area North Asia, Global Pulp & Wood, Global Operations, Global HR, Global R&D, Strategy & Projects, Legal IP & Compliance, Corporate Communications & Investor Relations, Emerging Business Areas, Corporate Secretary  
Supervisory Board functions in other companies: Economic Development Board, Singapore  
Management and monitoring functions in major subsidiaries: PT. South Pacific Viscose
- **Robert van de Kerkhof (born 1964)**  
Member of the Management Board, Chief Commercial Officer  
First appointed: May 1, 2014  
Current term of office ends: December 31, 2019 (extended by three years as of January 1, 2017)  
Responsibilities: Regional Area Europe and Americas, Global Business Management Textiles and Nonwovens, Global Sustainability, Global Brand Management, Global Supply Chain,

Technical Customer Service & Quality Management, Strategic Price Management, Market Intelligence, Global Logistics  
Supervisory Board functions in other companies: none  
Management and monitoring functions in major subsidiaries: none

- **Thomas Obendrauf (born 1970)**

Member of the Management Board, Chief Financial Officer  
First appointed: March 1, 2016  
Current term of office ends: February 28, 2019  
Responsibilities: Global Accounting & Tax Management, Global Controlling, Global Treasury, Finance AMEA, Finance North Asia, Finance Europe and Americas, Global Purchasing, Finance Pulp & Wood, Global Process & Information Technology, Internal Audit & Risk Management  
Supervisory Board functions in other companies: none  
Management and monitoring functions in major subsidiaries: Lenzing (Nanjing) Fibers Co., Ltd., Biocel Paskov a.s.

In a meeting on December 12, 2016, the Supervisory Board of Lenzing AG appointed Heiko Arnold to serve as a Member of the Management Board and Chief Technology Officer beginning on July 1, 2017 (or an earlier date to be agreed on). The assignment of responsibilities will take place prior to the start of employment through a resolution by the Supervisory Board on the amendment of the rules of procedure for the Management Board.

The Management Board directs the business operations of Lenzing AG in accordance with the applicable legal regulations, the Articles of Association and the internal rules of procedure for the Management Board. The distribution of responsibilities among the individual members of the Management Board is based on the organizational plan specified in the internal rules of procedure, which also regulates the cooperation between the Management Board members. Furthermore, the Management Board is required to comply in full with the rules stated in the Austrian Code of Corporate Governance.

### Supervisory Board Composition

- **Hanno M. Bästlein (born 1963)**  
Since April 22, 2015: Chairman  
First appointed: April 28, 2014  
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2016 financial year.  
Supervisory Board functions in other companies: AMAG Austria Metall AG, VA Intertrading Aktiengesellschaft (Chairman), B&C Industrieholding GmbH
- **Veit Sorger (born 1942)**  
Since March 29, 2011: Deputy Chairman  
First appointed: June 4, 2004  
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2018 financial year.  
Supervisory Board functions in other companies: Mondi AG (Chairman), Semperit Aktiengesellschaft Holding (Chairman), Constantia Industries AG (Chairman), Binder+Co AG, GrECo International Holding AG

- **Felix Strohbichler (born 1974)**  
Since April 22, 2015: Deputy Chairman  
First appointed: April 22, 2015  
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2018 financial year.  
Supervisory Board functions in other companies: Semperit Aktiengesellschaft Holding
- **Helmut Bernkopf (born 1967)**  
First appointed: April 23, 2009  
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2018 financial year.  
Supervisory Board functions in other companies:  
Oesterreichische Entwicklungsbank AG (Chairman) since September 21, 2016, OeKB CSD GmbH (Deputy Chairman) since September 7, 2016, „Österreichischer Exportfonds“ GmbH (Chairman) since June 27, 2016. Up to March 2016: Schoellerbank Aktiengesellschaft (Deputy Chairman), Bausparkasse Wüstenrot Aktiengesellschaft, BWA Beteiligungs- und Verwaltungs-Aktiengesellschaft; up to June 2016: Oesterreichische Kontrollbank Aktiengesellschaft; up to July 2016: card complete Service Bank AG (Chairman)
- **Franz Gasselsberger (born 1959)**  
First appointed: April 24, 2013  
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2019 financial year.  
Supervisory Board functions in other companies: Bank für Tirol und Vorarlberg Aktiengesellschaft (Chairman), BKS Bank AG, voestalpine AG, AMAG Austria Metall AG
- **Josef Krenner (born 1952)**  
First appointed: April 23, 2009  
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2018 financial year.  
Supervisory Board functions in other companies: B&C Industrieholding GmbH, AMAG Austria Metall AG (Chairman)
- **Patrick Prügger (born 1975)**  
First appointed: March 29, 2011  
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2019 financial year.  
Supervisory Board functions in other companies: Semperit Aktiengesellschaft Holding, AMAG Austria Metall AG
- **Andreas Schmidradner (born 1961)**  
First appointed: June 12, 2008  
Andreas Schmidradner resigned from the Supervisory Board on March 1, 2016.  
Supervisory Board functions in other companies: Semperit Aktiengesellschaft Holding, VAMED Aktiengesellschaft
- **Astrid Skala-Kuhmann (born 1953)**  
First appointed: 19.04.2012  
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2018 financial year.  
Supervisory Board functions in other companies: Semperit Aktiengesellschaft Holding

#### **Supervisory Board members designated by the Works Council:**

- **Helmut Kirchmair (born 1968)**, First appointed 2015
- **Georg Liftinger (born 1961)**, First appointed 2008
- **Daniela Födinger (born 1964)**, First appointed 2014
- **Johann Schernberger (born 1964)**, First appointed 2001
- **Franz Berlanda (born 1961)**, First appointed 2014 (resigned on March 1, 2016)

#### **Independence (C-Rules 53 and 54 of the ACCG)**

The Supervisory Board has adopted the guidelines for the independence of its members pursuant to Appendix 1 of the ACCG.

All members of the Supervisory Board have declared themselves to be independent of the company and the Management Board.

In accordance with C-Rule 54 of the ACCG, the Supervisory Board members Veit Sorger, Helmut Bernkopf, Franz Gasselsberger and Astrid Skala-Kuhmann declared in 2016 that they were neither shareholders with a stake of more than 10 percent in the company nor did they represent the interests of such shareholders.

#### **Working procedures of the Supervisory Board**

In order to fulfil its responsibility of monitoring the work of the Management Board, the Supervisory Board of Lenzing AG holds meetings at least once each quarter. Five Supervisory Board meetings were held during the reporting year (C-Rule 36 of the ACCG).

The Supervisory Board of Lenzing AG had five committees in 2016 (C-Rules 34 and 39 of the ACCG):

#### **Audit Committee**

The Audit Committee carries out the responsibilities assigned by Section 92 Para. 4a of the Austrian Stock Corporation Act. Accordingly, it is responsible, above all, for reviewing the annual financial statements and preparing their approval by the full Supervisory Board as well as evaluating the Management Board's proposal for the distribution of profits, the Management Report and the Corporate Governance Report. The Audit Committee examines the consolidated financial statements and the Group Management Report, makes a recommendation for the selection of the auditors and verifies the auditors' independence. Its responsibilities also include the following: monitoring the accounting process and making recommendations or suggestions to ensure its reliability and monitoring the effectiveness of the company's internal control system (ICS), internal audit and risk management system. The committee is required to report to the Supervisory Board on its activities. The Audit Committee met three times during the reporting year, whereby the meetings focused primarily on the internal control systems and forensics as well as changes in the rules for the mandatory external rotation of the auditor and the approval requirements for non-audit services by the auditor.

Members: Patrick Prügger (Chairman, financial expert), Hanno M. Bästlein, Felix Strohbichler, Andreas Schmidradner (resigned on March 1, 2016), Johann Schernberger, Georg Liftinger

#### **Nomination Committee**

The Supervisory Board has also established a Nomination Committee. It makes recommendations to the Supervisory Board for appointments to fill new or vacant positions on the Management Board and deals with issues related to succession planning. In

2016 this committee prepared the reappointment of Robert van de Kerkhof and the appointment of Heiko Arnold. It also made recommendations for appointments to the Supervisory Board. The Nomination Committee met five times during 2016.

Members: Hanno M. Bästlein (Chairman), Felix Strohbichler, Veit Sorger, Astrid Skala-Kuhmann, Andreas Schmidradner (resigned on March 1, 2016), Johann Schernberger, Georg Liftingner

#### **Remuneration Committee**

The Supervisory Board's Remuneration Committee deals with the terms and conditions of the employment contracts with the members of the Management Board, ensures compliance with C-Rules 27, 27a and 28 of the ACCG and reviews the remuneration policy for the Management Board members at regular intervals. The three meetings held by the Remuneration Committee in 2016 focused, in particular, on evaluating the performance of the Management Board and the targets for 2016 as well as general remuneration issues relating to the Management Board. The Remuneration Committee also negotiated, approved and concluded employment contracts for two members of the Management Board on behalf of Lenzing AG.

Members: Hanno M. Bästlein (Chairman), Felix Strohbichler, Veit Sorger, Andreas Schmidradner (resigned on March 1, 2016)

#### **Strategy Committee**

The Strategy Committee of the Supervisory Board is responsible for reviewing the strategic positioning of the company and monitoring the implementation of the corporate strategy. In 2016 the Management Board developed strategic options for the expansion of cellulose and fiber production capacity and discussed these options with the Strategy Committee. The Management Board also reported on research and development activities at Lenzing AG. The Strategy Committee held three meetings in 2016.

Members: Hanno M. Bästlein (Chairman), Astrid Skala-Kuhmann, Veit Sorger, Felix Strohbichler, Patrick Prügger, Johann Schernberger, Georg Liftingner

#### **Committee for Urgent Matters**

The Supervisory Board has formed a committee to deal with urgent matters. It is authorized to make decisions in particularly urgent cases on transactions which require the approval of the Supervisory Board. This committee met twice in 2016 to handle legal proceedings with an energy provider and the sale of an investment.

Members: Hanno M. Bästlein (Chairman), Felix Strohbichler, Johann Schernberger

#### **Cooperation between the Management Board and Supervisory Board**

The Management Board reports to the Supervisory Board on fundamental issues relating to future business policies and the outlook for the financial position and financial performance of Lenzing AG and the group companies. In addition, the Management Board provides the Supervisory Board with regular information on the development of business and the position of the company and the Group in comparison to forecasts, taking future developments into account. In a separate strategy meeting, the Management Board and Supervisory Board also discuss the long-term growth objectives of the Lenzing Group.

#### **Self-evaluation by the Supervisory Board**

In 2016 the Supervisory Board discussed the self-evaluation that was carried out during the fourth quarter of 2015 in accordance with C-Rule 36 of the ACCG. This self-evaluation took the form of a questionnaire which focused on issues such as the Supervisory Board's control function relating to the Management Board as well as compliance with the Management Board's reporting obligations to the Supervisory Board. The measures identified by this process to improve the efficiency of the Supervisory Board's work were subsequently implemented. The next self-evaluation is scheduled for the first half of 2017 and will include the support of an external consultant.

### **Principles of the Remuneration System for the Management Board and Supervisory Board (C-Rule 30 of the ACCG)**

The remuneration models in the Management Board contracts were largely harmonized in recent years, and the variable components were expanded. The remuneration of the Management Board members in 2016 comprised a fixed component and a variable (performance-based) component as well as an additional long-term bonus component. The variable salary components are linked, in particular, to the following performance criteria:

- **Current variable (performance-based) component:**  
The current variable (performance-related) component for all members of the Management Board is based on ROCE and individual qualitative targets.
- **Long-term bonus component:**  
The benchmark for the long-term bonus of Stefan Doboczky (since 2015) and Thomas Obendrauf (since 2016) is the long-term increase in the equity values of the Lenzing Group, based on an agreed formula, over a period of several years. Payment is made at the end of the contract period (Doboczky 2018, Obendrauf 2019) and is dependent on exceeding a specified threshold and the extension of the Management Board contract. The bonus for Stefan Doboczky will be paid equally in cash (50 percent) and shares of Lenzing AG (50 percent). The first half of the shares is subject to a minimum retention period of one year, while the second half of the shares must be held for at least two years after purchase. The bonus for Thomas Obendrauf is paid entirely in cash.

The bonus for Robert van de Kerkhof is based equally (50 percent) on multi-year performance criteria for the Lenzing Group (revenue, EBIT margin and Total Shareholder Return) in comparison with a peer group and (50 percent) on the attainment of qualitative goals. Payment to Robert van de Kerkhof is made annually at an amount equal to one-third of the accumulated bonus entitlement. Any bonus entitlement remaining after the end of the current term of office is paid in the following year. The harmonization of the remuneration model with the other Management Board members is planned for the term of office beginning on January 1, 2017.

- The maximum bonus of 292 percent for Stefan Doboczky, 90 percent for Robert van de Kerkhof and 65 percent for Thomas Obendrauf is based on the maximum current variable remuneration component plus the proportional share of the

maximum long-term bonus in comparison to the current fixed component. There is no stock option program or other program for the transfer of shares at a preferential price.

- The Management Board is also entitled to contributions by the company to a pension fund, which amounted to EUR 115 thousand in 2016 (2015: EUR 159 thousand). Of this total, EUR 66 thousand are attributable to Stefan Doboczky, EUR 32 thousand to Robert van de Kerkhof and EUR 17 thousand to Thomas Obendrauf.
- Company pension benefits as well as severance payments and entitlements to benefits on the termination of a board member's employment contract are based on federal regulations (Austrian Company Employee Pension Act).
- The provisions of C-Rule 27a of the ACCG are adequately taken into consideration in the event a Management Board contract is terminated prematurely.
- The company has concluded directors and officers liability insurance (D&O insurance), accident insurance and legal protection insurance for the members of the Management Board.

The following amounts totaling EUR 2,837 thousand for 2016 (2015: EUR 5,470 thousand) include EUR 2,837 thousand (2015: EUR 2,644 thousand) for short-term employee benefits and EUR 0 thousand (2015: EUR 2,826 thousand) for payments related to the termination of employment contracts.

## Current remuneration for the active members of the Management Board of Lenzing AG (expensed):

	Fixed and variable current remuneration and termination pay expensed for active members of the Management Board						EUR '000
	Stefan Doboczky <sup>1</sup>		Robert van de Kerkhof		Thomas Obendrauf <sup>2</sup>		
	2016	2015	2016	2015	2016	2015	
Fixed current remuneration	651	412	437	453	347	0	
Variable current remuneration	783	644	392	209	227	0	
Termination pay	0	0	0	0	0	0	
<b>Total</b>	<b>1,434</b>	<b>1,056</b>	<b>829</b>	<b>662</b>	<b>574</b>	<b>0</b>	

	EUR '000					
	Thomas Riegler <sup>3</sup>		Peter Untersperger <sup>4</sup>		Total	
	2016	2015	2016	2015	2016	2015
Fixed current remuneration	0	457	0	244	1.435	1.566
Variable current remuneration	0	0	0	225	1.402	1.077
Termination pay	0	874	0	1.953	0	2.826
<b>Total</b>	<b>0</b>	<b>1,330</b>	<b>0</b>	<b>2,422</b>	<b>2,837</b>	<b>5,470</b>

<sup>1)</sup> Member of the Management Board since June 1, 2015.

<sup>2)</sup> Member of the Management Board since March 1, 2016.

<sup>3)</sup> Member of the Management Board up to December 1, 2015.

<sup>4)</sup> Member of the Management Board up to May 31, 2015.

A further EUR 0 thousand (2015: EUR 40 thousand) was expensed to cover the entitlements of former Management Board members.

Expenses of EUR 1,116 thousand were recognized in 2016 (2015: EUR 731 thousand) for entitlements arising from long-term bonus models (other non-current employee benefits and share-based payments). Post-employment benefits of EUR 143 thousand (2015: EUR 273 thousand) were also granted to the active members of the Management Board for company pensions and termination payments. The remuneration for former members of the Management Board of Lenzing AG or their surviving dependents amounted to EUR 987 in 2016 (2015: EUR 973 thousand).

The principles underlying the remuneration of the Supervisory Board are defined in the Articles of Association of Lenzing AG (Section 13), which are published on the company's website. In accordance with the Articles of Association, the members of the Supervisory Board are granted annual remuneration consistent with their responsibilities and the position of the company.

The remuneration of the Supervisory Board members for the 2015 financial year, which was approved by the Annual General Meeting of Lenzing AG on April 20, 2016, is as follows:

- EUR 50,000 for the Chairman of the Supervisory Board
- EUR 35,000 for the Deputy Chairmen of the Supervisory Board
- EUR 20,000 for each other member of the Supervisory Board
- EUR 25,000 for the Chairman of the Audit Committee and the

Strategy Committee as well as for the financial expert if he/she is not Chairman of the Audit Committee

- EUR 15,000 for the Chairman of the Nomination Committee, the Remuneration Committee and the excelLENZ Committee
- EUR 10,000 for each member of the Audit Committee and the Strategy Committee
- EUR 7,500 for each member of the Nomination Committee, the Remuneration Committee and the excelLENZ Committee

Each Supervisory Board member also receives an attendance fee of EUR 1,000 for each Supervisory Board meeting. The members of the Supervisory Board committees each receive an attendance fee of EUR 1,000 for each committee meeting, unless these meetings are held on the same day as a Supervisory Board meeting.

The members of the Supervisory Board received the following remuneration (in total: EUR 551,900), which was paid out in 2016:

Hanno M. Bästlein	EUR 140,500
Veit Sorger	EUR 78,500
Felix Strohbiehler	EUR 60,667
Helmut Bernkopf	EUR 24,000
Josef Krenner	EUR 28,000
Franz Gasselsberger	EUR 27,000
Patrick Prügger	EUR 50,000
Andreas Schmidradner (resigned on March 1, 2016)	EUR 59,500
Astrid Skala-Kuhmann	EUR 39,000
Michael Junghans (resigned on April, 2015)	EUR 39,333
Georg Liftinger	EUR 1,650
Helmut Kirchmair	EUR 1,200
Johann Schernberger	EUR 1,350
Daniela Födinger	EUR 1,200

The remuneration policy for the Group's global top management, the managing directors of subsidiaries and the region managers consists of a fixed and a variable component. The fixed remuneration represents an attractive income in line with the market. The variable remuneration is based, on the one hand, on the attainment of established financial targets for the Group and, on the other hand, on the fulfilment of individually defined personal goals.

## Advancement of women in the Management Board, Supervisory Board and key management positions (L-Rule 60 of the ACCG)

Lenzing AG follows a strict equal opportunity policy and actively promotes the career development of women in managerial positions in all areas of the business.

The percentage of women in qualified positions with the Lenzing Group has increased steadily in recent years and currently includes, among others, Astrid Skala-Kuhmann and Daniela Födinger as members of the Supervisory Board. In addition, the company supports the compatibility of career and family life with flexible working time and work-at-home models wherever possible.

## Compliance

The Lenzing Group's Code of Business Conduct, which took effect in 2012, was revised by the Group Compliance Department. The binding directives and other policies and guidelines in this group-wide rulebook were amended in 2016, and a modified process for updates, documentation and training was initiated and will be finalized over the coming years. The group-wide compliance management system (CMS) also underwent further substantial development. Live training courses were held for more than 400 employees worldwide in three languages (German, English and Chinese) concerning the directives on antitrust law and the prevention of bribery and corruption which were rolled out in 2015. In preparation for the application of the General Data Protection Regulation in May 2018, 32 key managers took part in intensive training during December 2016. The CMA includes a help platform plus various information systems and will also allow employees to report rule violations to the Group Compliance Officer directly and anonymously through a planned whistleblower system. Moreover, the Issuer Compliance Directive was revised based on the European Market Abuse Directive and rolled out throughout the Group. Training videos on issuer compliance were also prepared and will form the basis for group-wide e-learning.

In accordance with C-Rule 18a of the ACCG, a report on compliance activities is submitted to the Audit Committee twice each year.

## Directors' Dealings

The purchase and sale of shares by members of the Management Board and Supervisory Board are disclosed in accordance with the applicable legal regulations (Article 19 of the European Market Abuse Directive, Regulation (EU) No. 596/2014). Information on the purchase and sale of shares after July 3, 2016 is provided on the company's website.

## Risk management and internal audit

The effectiveness of Lenzing's risk management system in 2016 was evaluated by the auditor, Deloitte Audit Wirtschaftsprüfung GmbH, in accordance with Rule 83 of the ACCG and resulted in an unqualified opinion. The Management Board was informed of the audit results. In addition, the Head of Risk Management makes regular reports on current risks to the Audit Committee at its meetings.

The Internal Audit Department reports directly to the Management Board. The annual audit schedule is finalized in close cooperation with the Management Board and the Audit Committee. The Head of Internal Audit also makes regular reports to the Audit Committee on key audit findings.

## External evaluation

In accordance with C-Rule 62 of the ACCG, Lenzing must arrange for an external institution to evaluate its compliance with the C-Rules and R-Rules of the code on a regular basis, but at least every three years. Lenzing commissioned PwC Oberösterreich Wirtschaftsprüfung und Steuerberatung GmbH to evaluate its Corporate Governance Report for 2016. This evaluation concluded that the statement of compliance with the Austrian Code of Corporate Governance (January 2015 version) issued by Lenzing AG gives a true and fair representation of the actual situation. All external evaluation reports are published on the company's website under [www.lenzing.com](http://www.lenzing.com).

Lenzing, March 8, 2017

**Lenzing Aktiengesellschaft**

**The Management Board**

**Stefan Doboczky**  
Chief Executive Officer

**Robert van de Kerkhof**  
Chief Commercial Officer

**Thomas Obendrauf**  
Chief Financial Officer