

Corporate Governance Report 2011

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 groups oriented towards sustainable and long-term value creation. It is intended to create a high degree of transparency for all stakeholders of the company.

Lenzing AG respects the ACCG. For the first time, the company committed itself in 2010 to complying with the stipulations contained in the code, which is available for download from the Internet at <http://www.corporate-governance.at>.

This Corporate Governance Report is publicly available on the website of Lenzing AG.

1) Explanation for deviations from the C-Rules of the Austrian Corporate Governance Code

C-Rules 31/51 ACCG

Lenzing AG is of the opinion that disclosing the remuneration paid to individual Management Board or Supervisory Board members will not provide shareholders and other stakeholders with relevant supplementary information for the capital market. Accordingly, it will not provide any additional insights from an economic point of view.

2) Information on the Management Board

Peter Untersperger (born 1960)

Chairman of the Management Board

First appointed: January 1, 1999

Current mandate expires: March 31, 2013

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
 Current mandate expires: March 31, 2013

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

Supervisory Board mandates in other companies: none

3) Information on the Supervisory Board

3.1. 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: 2013

Supervisory Board mandates in other publicly listed companies:
 Semperit AG Holding, Allg. Baugesellschaft – A. Porr AG

Veit Sorger (born 1942)
 Since March 29, 2011: Deputy Chairman
 First appointed: June 4, 2004
 Current mandate expires: 2012

Supervisory Board mandates in other publicly listed companies:
 Mondi AG (Chairman), Semperit AG Holding (Chairman)

Hermann Bell (born 1932)
 Term of office expired on March 29, 2011
 Up to March 29, 2011: Chairman
 First appointed: July 5, 1972

Supervisory Board mandates in other publicly listed companies: Oberbank AG (Chairman), BKS Bank AG

Helmut Bernkopf (born 1967)
 First appointed: April 23, 2009
 Current mandate expires: 2012

Supervisory Board mandates in other publicly listed companies: CA Immobilien Anlagen AG

Josef Krenner (born 1952)
 First appointed: April 23, 2009
 Current mandate expires: 2012

Supervisory Board mandates in other publicly listed companies: Voestalpine AG

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Walter Lederer (born 1961)

First appointed: June 27, 2002

Current mandate expires: 2012

Supervisory Board mandates in other publicly listed companies:

Semperit AG Holding, Allg. Baugesellschaft – A. Porr AG, UBM Realitätenentwicklung AG

Martin Payer (born 1978)

First appointed: June 15, 2007

Current mandate expires: 2012

Supervisory Board mandates in other publicly listed companies: Semperit AG Holding

Patrick Prügger (born 1975)

First appointed: March 29, 2011

Current mandate expires: 2014

Supervisory Board mandates in other publicly listed companies: Semperit AG Holding

Andreas Schmidradner (born 1961)

First appointed: June 12, 2008

Current mandate expires: 2012

Supervisory Board mandates in other publicly listed companies: Semperit AG Holding

Supervisory Board members designated by the Works Council: Rudolf Baldinger, Georg Liftingner, Gerhard Ratzesberger, Johann Schernberger

3.2. 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 Corporate Governance Code.

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 2011 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.

3.3. Method of operation

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

In the 2011 financial year the Supervisory Board of Lenzing AG constituted four committees consisting of its own members (C-Rules 34 and 39 ACCG):

3.3.1. 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 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 2011 financial year the Audit Committee convened three times.

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

3.3.2. 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. One meeting of the Nomination Committee was held in the 2011 financial year, which focused on extending the Management Board contract of Friedrich Weninger.

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

3.3.3. 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 twice in the 2011 financial year, focusing on the remuneration model applying to one Management Board member as of 2012.

Members: Michael Junghans (Chairman), Veit Sorger

3.3.4. Special Committee

In connection with the capital increase carried out in 2011, the Supervisory Board established a temporary committee in order to grant the required approvals and resolutions for the pur-

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pose of the capital increase. One session of this committee took place, which primarily dealt with defining the final terms and conditions of the capital increase coordinated by the Management Board.

Members: Michael Junghans (Chairman), Veit Sorger, Rudolf Baldinger

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

- 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 operating cash flow. A bonus bank model has been set up with respect to the long-term bonus linked to the dividends paid, which stipulates a bonus payment distributed over a period of three years.
- The short-term variable salary component may comprise up to 50% of the total remuneration. In addition, the Supervisory Board may subsequently grant the Management Board a one-off bonus for extraordinary projects, which compensates for the achievements of the Management Board above and beyond the contractually stipulated services performed on behalf of the company (e.g. "Re-IPO") and which is commensurate to the total remuneration.
- Company pension benefits as well as severance payments claims and entitlements to benefits in case the employment contract of a board member is terminated are determined by valid legal regulations.
- The company has taken out legal protection insurance as well as a Directors and Officers Liability Insurance (D&O) policy for the Management Board members.

The principles underlying the remuneration of Management Board members are laid down in the Articles of Association of Lenzing AG (§ 13) published on the website of the company.

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

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. 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.

Lenzing Aktiengesellschaft

Lenzing, January 2012

The Management Board

Peter Untersperger

Friedrich Weninger

Thomas G. Winkler