Annual Report 2017
Lenzing Group

Highlights 2017

Jan. Feb. March Apr. May June July Aug. Sept. Oct. Nov. Dec.

Innovative REFIBRA™ technology presented in Paris as a contribution to creating a closed loop in the fashion sector

All standard Lenzing fibers are derived 100 percent from nature according to the Biobased Product Label issued by the US Department of Agriculture

Groundbreaking ceremony for capacity expansion in Heiligenkreuz – increase of 25,000 tons in production capacity for premium specialty fibers

All of the Lenzing Group's biobased materials are officially bio-certified by the US Department of Agriculture

Customer intimacy: Lenzing opens a new sales and marketing office in Istanbul (Turkey)

New sustainability strategy: On World Earth Day, Lenzing presents its new sustainability strategy and its sustainability report

Heiko Arnold appointed new Chief Technology Officer of the Lenzing Group

Greater transparency in the fashion industry: introduction of LENZING™ ECOVERO™ branded viscose fibers

New location: Lenzing plans to construct a state-of-the-art lyocell fiber production plant in Thailand

Award: Lenzing receives the Pegasus business prize in Gold as the best leading company in Upper Austria

More innovations and greater customer intimacy: New application and innovation center opened in Hong Kong

Entry into the filament market: New TENCEL™ Luxe branded lyocell filament yarn presented in Paris

Internationality prize: Lenzing Group ranks first in the "International" category by Austria's Leading Companies in Upper Austria

Stefan Doboczky re-appointed as Chief Executive Officer – new contract runs to the end of 2022

Selected indicators of the Lenzing Group

Key earnings and profitability figures

EUR mn	2017	2016	Change
Revenue	2,259.4	2,134.1	5.9%
EBITDA (earnings before interest, tax, depreciation and amortization)	502.5	428.3	17.3%
EBITDA margin	22.2%	20.1%	
EBIT (earnings before interest and tax)	371.0	296.3	25.2%
EBIT margin	16.4%	13.9%	
EBT (earnings before tax)	357.4	294.6	21.3%
Net profit for the year	281.7	229.1	23.0%
Earnings per share in EUR	10.47	8.48	23.5%
ROCE (return on capital employed)	18.6%	15.1%	
ROE (return on equity)	24.5%	22.6%	
ROI (return on investment)	14.5%	11.8%	

Key cash flow figures

EUR mn	2017	2016	Change
Gross cash flow	418.7	385.9	8.5%
Cash flow from operating activities	271.1	473.4	(42.7)%
Free cash flow	32.6	366.3	(91.1)%
CAPEX	238.8	107.2	122.6%
Liquid assets as at 31/12	315.8	570.4	(44.6)%
Unused credit facilities as at 31/12	213.8	217.7	(1.8)%

Key balance sheet figures

EUR mn as at 31/12	2017	2016	Change
Total assets	2,497.3	2,625.3	(4.9)%
Adjusted equity	1,527.7	1,390.5	9.9%
Adjusted equity ratio	61.2%	53.0%	
Net financial debt	66.8	7.2	832.4%
Net financial debt / EBITDA	0.1	0.0	694.7%
Net debt	172.2	115.8	48.7%
Net gearing	4.4%	0.5%	
Trading working capital	414.4	379.6	9.2%
Trading working capital to annualized group revenue	19.4%	17.1%	

Key stock market figures

EUR	2017	2016	Change
Market capitalization in mn as at 31/12	2,810.3	3,053.3	(8.0)%
Share price as at 31/12	105.85	115.00	(8.0)%
Dividend per share	5.00[1]	4.20	19.0%

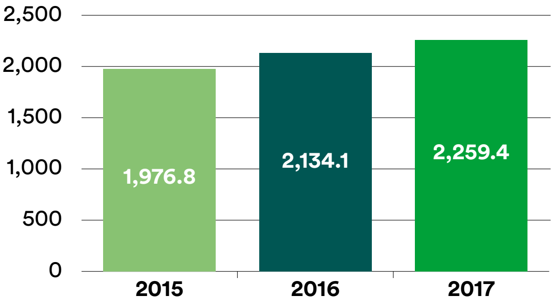
Employees	2017	2016	Change
Number (headcount) as at 31/12	6,488	6,218	4.3%

1) On the basis of proposed distribution of profits.

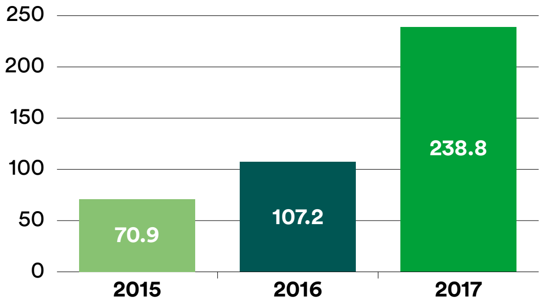
The above financial indicators are derived primarily from the IFRS consolidated financial statements of the Lenzing Group. Additional details are provided in the section "Notes on the financial performance indicators of the Lenzing Group", in the glossary to the Annual Report and in the consolidated financial statements of the Lenzing Group. Rounding differences can occur in the presentation of rounded amounts and percentage rates.

Overview of the Lenzing Group

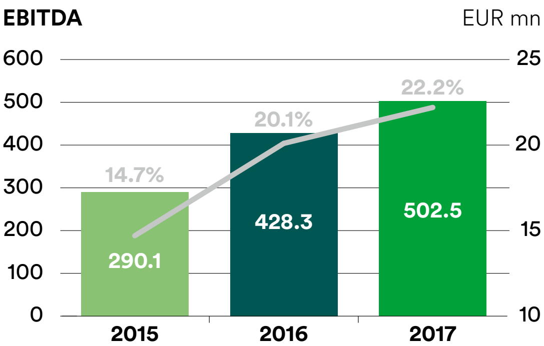
Revenue



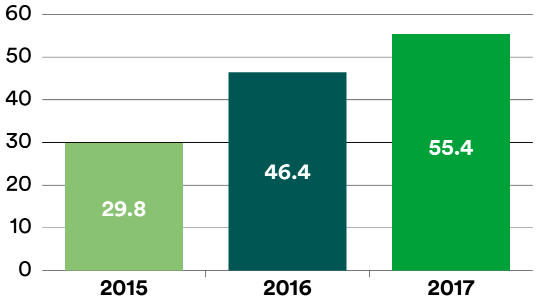
Investments (CAPEX)



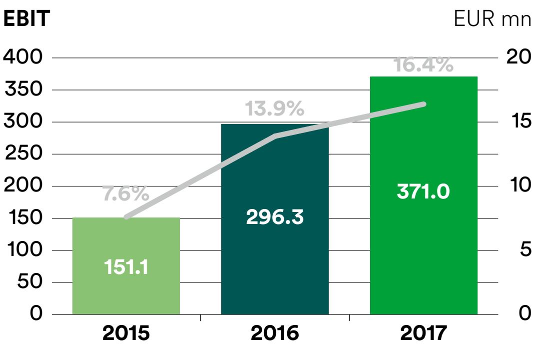
EBITDA



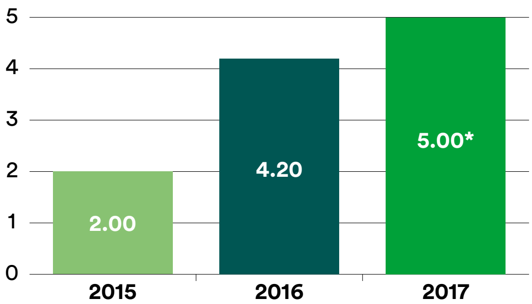
R&D Expenditures (according to the Frascati method)



EBIT



Dividend per share



*Based on the proposed distribution of profits.

The Lenzing Group is an international company that produces high-quality fibers from the renewable raw material wood with environmentally friendly and innovative technologies. These fibers form the basis for a wide range of textile products – from elegant ladies clothing to high-end denims and finest lingerie. LENZING™ fibers are also used in hygiene products, for example in biologically degradable wipes. With its technology, products and sustainable innovations, Lenzing is a worldwide leader for the redirection of the textile sector towards a resource-efficient closed loop economy.

Lenzing's quality and innovative strength set global standards for wood-based cellulose fibers. With 80 years of experience, the Lenzing Group is the only company in the world which produces significant volumes of all three wood-based cellulose fiber generations. Its products are marketed under the following brands: TENCEL™ for textile applications, VEOCEL™ for nonwovens and LENZING™ for special applications in other areas. Innovations like REFIBRA™ recycling technology, the identifiable LENZING™ ECOVERO™ branded fibers and TENCEL™ Luxe branded lyocell filament yarn make Lenzing a global innovation leader.

The Lenzing Group's success is based on consistent customer orientation combined with innovation, technology and quality leadership. Lenzing is committed to the principles of sustainable management with very high environmental standards and can underscore this commitment with numerous international sustainability certifications for its business processes as one of the most sustainable companies in the sector. In addition to fibers, which form the core business, the Lenzing Group is also active in the fields of engineering and plant construction – mostly for its own locations, but also for external customers.

Annual Report 2017
Lenzing Group

Innovative by nature

LENZING™ fibers are "Innovative by nature" in two ways. Cellulose fibers made of wood are a natural product, which has been used by Lenzing for 80 years to create innovative products for the production of textiles and nonwovens.

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Introduction by the Chief Executive Officer

Dear Ladies and Gentlemen,

During the 80 years of our corporate history, we have grown from an Austrian company with production facilities in foreign countries into an international group with strong Austrian roots. This transformation is underscored by our sCore TEN corporate strategy. Driven by the Lenzing spirit, our 6,488 employees set new records for revenue and earnings in 2017 and expanded our leading role in innovation and sustainability. Revenue rose by 5.9 percent to EUR 2.26 bn and EBIDTA by 17.3 percent to EUR 502.5 mn.

Products made of LENZING™ fibers are in high demand because of the increasing value placed by consumers of textile and hygiene products on sustainability and environmental friendliness. We address important global topics like the strong population growth with our mission to transform the natural, renewable raw material wood into products that can be used by people in many different situations and then be returned to the natural lifecycle. This development is supported by rising prosperity, also in the emerging countries, and the resulting increase in the demand for clothing.

Our customers and partners – from the fiber spinners to weavers, knitters and clothing manufacturers up to the fashion labels – are increasingly asking for our specialty fibers. It is therefore only logical that we create additional capacity for the production of these fibers and, in doing so, follow the goal set by our sCore TEN strategy to generate half our revenues with specialty fibers through organic growth by 2020. In 2017 we launched a project to expand our production locations in Heiligenkreuz (Austria) and Mobile (USA). We will be in a position to offer our customers additional volumes of fibers from Heiligenkreuz beginning in the first half of 2018, and in Mobile, Alabama, we are constructing the world's largest state-of-the-art plant for lyocell fibers. The next logical step, the construction of the first plant for lyocell fibers in Asia, is also well on track: We secured a site in Thailand which is not only good from a logistics standpoint, but also gives us access to biogenic energy resources. The first technical planning phase is currently in progress at our project office in Bangkok.

Lenzing's business model is also very successful because we produce most of our own pulp supplies. In line with our sCore TEN strategy, we are therefore adding further capacity for the production of pulp in Lenzing (Austria) and Paskov (Czech Republic). The projects at both locations progressed well during the past year.

We invested EUR 238.8 mn mainly in the expansion of capacity for specialty fibers and pulp in 2017, which is more than double the expenditures in 2016. This increased construction activity requires greater attention from the Management Board. I am therefore pleased that we were able to welcome Heiko Arnold as our new Chief Technology Officer during the past year.

Our 190-member research team in Lenzing is committed to the development of new products that meet our claim to be the sustainability champion of the fiber world. A number of significant innovations were launched in 2017 which demonstrate the Lenzing Group's responsibility for sustainability as well as our ongoing innovative strength. This year we set new standards in the world of fibers and filaments:

- ECOVERO™ branded viscose fibers are the answer to a mega issue in the fashion industry, namely the 100 percent identifiability of fibers from the producer to the consumer. With ECOVERO™, one thing is clear: If Lenzing is on the outside, Lenzing is also on the inside. ECOVERO™ fibers are among the most sustainable viscose fibers on the market.
- TENCEL™ Luxe branded lyocell filaments pave the way for sustainability to enter the realm of haute couture. We introduced this “silk made of wood“ at the Paris Fashion Week in October and have since received numerous inquiries. With this yarn, luxury labels can offer their customers high-quality, sustainable products.
- TENCEL™ Lyocell fibers with REFIBRA™ technology, which were introduced in 2016, were in high demand during 2017 and will be found in numerous international luxury brand collections during the coming year.

Customer intimacy has always been a guarantee for success at Lenzing. In order to further strengthen these relationships, we took two important steps during the past year:

- In Istanbul, we opened our own local office in April and now service Turkish customers directly – without the intervention of agents. This decision clearly improved the customer intimacy.
- In Hong Kong, we opened an application and innovation center in September. This allows us to test new products on the spinning, weaving and knitting machines together with our customers and partners directly on site, which facilitates and improves procurement processes for the fashion brands.

Our 80th anniversary also marks the next major step into the future with the modernization of our brand presence. We carried out extensive analyses and preparations in 2017 and decided to position the Lenzing master brand and all product brands more clearly. With the new brand personality, which is based on our sCore TEN strategy, we want to communicate what we do and what we stand for even more effectively. Our leading fiber innovations are the means to a much larger end: The goal of our work is to improve the quality of life for consumers who use products made of LENZING™ fibers, to improve the satisfaction of customers who rely on our work in their businesses, and to improve the quality of a healthy environment, in which we all live and will someday leave to our children.

The investments in our market identity are crucial for the implementation of our sCore TEN strategy: We no longer want to be seen by consumers as only a B2B brand, but also increasingly as a B2B2C brand and, in this way, drive the demand for our products. We want to support the consumer in his textile purchasing decisions by creating a better understanding for the benefits of our fibers. This will strengthen our leadership role, protect our profitability and tap the potential for further growth.

Our employees have played a decisive role in the strategic reorientation of our company, and I would like to thank them all. On behalf of the Lenzing team, I would also like to thank our shareholders, customers and partners for their confidence during the past year. We will continue to work with this same strong commitment and decision in 2018.

Yours **Stefan Doboczky**

Report of the Supervisory Board

To the 74th Annual General Meeting

Dear Shareholders,

In spite of the uncertainty in political circles and strong fluctuations on the currency markets, 2017 will go down as the most successful financial year to date in the history of the Lenzing Group. The numerous achievements during the past year were supported by positive developments on the fiber markets and, above all, the tireless commitment of the workforce and the consistent implementation of the sCore TEN corporate strategy. This sound earnings growth will strengthen the financial basis for the company's future growth.

Important steps for the continued pursuit of the specialty strategy were taken in 2017 with the start of construction on the world's largest lyocell fiber plant in Mobile (Alabama) during the spring and the evaluation of potential locations in Asia. Issues related to future pulp supplies were also advanced and more precisely defined. Our company further expanded its leading role on the market for wood-based cellulose fibers with its TENCEL™ Luxe brand, the flagship project presented in 2017 which marks Lenzing's entry into the filament market, as well as the successful market launch of the pioneering REFIBRA™ recycling technology and the environmentally friendly produced LENZING™ ECOVERO™ viscose fiber.

The Management Board team was completed with the appointment of Heiko Arnold as Chief Technology Officer. He already played a key role in the company's development in all technical areas during the past financial year. Stefan Doboczky was reappointed prematurely for a period of five years to ensure the successful continuation of the growth course based on the specialty strategy. Progress on the expansion of global production capacity, the new application and innovation centers in Indonesia and Hong Kong and the strengthening of personnel resources with international experts will also prepare the company for the expected challenging market conditions.

The Supervisory Board fulfilled the monitoring obligations defined by law, the articles of association and rules of procedure in connection with these diverse activities. It was involved in all fundamental decisions on a timely basis and provided professional advice for the Management Board. The Management Board, in turn, submitted regular reports to the Supervisory Board on the financial position and performance of Lenzing AG and the Lenzing Group. In addition, the Management Board also reported to the chairman of the Supervisory Board outside the framework of scheduled meetings on the development of business, the position of the company and major transactions. Individual issues were handled in depth by the committees established by the Supervisory Board, which then reported to the full Supervisory Board on their activities.

Supervisory Board meetings

The Supervisory Board of Lenzing AG met five times during the 2017 financial year, where the Management Board reported on the development of business as well as major transactions and measures. The work of the Management Board was also monitored, and the Supervisory Board offered its professional advice on major strategic issues. The meetings concentrated, above all, on the following topics: the development of the business climate, the strategic development of the Lenzing Group, current and planned expansion projects, research and development focal points, staff-related issues and financing measures as well as the discussion and approval of the budget for the 2018 financial year.

With the support of an external advisory expert, the Supervisory Board addressed the efficiency of its own working procedures and discussed and implemented the resulting measures.

The Annual General Meeting on April 25, 2017 re-elected Felix Strohbichler and Hanno Bästlein, the undersigned, to the Supervisory Board. At the Supervisory Board meeting which followed this Annual General Meeting, the composition of the established committees was confirmed. The Supervisory Board meeting on September 27, 2017 was held at the plant in Heiligenkreuz, where the Supervisory Board could inform itself with the local management of the progress on the expansion of lyocell fiber production at this location. Felix Strohbichler resigned from his position on the Nomination Committee, Remuneration Committee and the Committee for Urgent Matters at the meeting on September 27, 2017. Patrick Prügger was appointed to replace him on these three committees.

Committee meetings

The Remuneration Committee established by the Supervisory Board met four times during the reporting year and dealt primarily with the evaluation of performance and definition of goals for the Management Board members. The employment contract for and re-appointment of Stefan Doboczky were also negotiated, finalized and approved.

The Nomination Committee met twice in 2017. The meetings focused, in particular, on changes in key positions, personnel development measures and succession planning. This committee also prepared the re-appointment of Stefan Doboczky and made an appropriate recommendation to the full Supervisory Board.

The Strategy Committee held three meetings during the reporting year. Discussions with the Management Board covered the further development of the sCore TEN corporate strategy, above all options to secure pulp supplies, as well as the expansion of fiber production capacity and the strengthening of Lenzing's market position.

The Audit Committee met three times in 2017. In addition to reviewing and preparing the separate and consolidated financial statements, the committee focused on monitoring the effectiveness of the internal control and risk management systems, addressing compliance-related matters, supervising the internal audit schedule and the implementation of related measures and identifying the future focal points of internal audit.

Additional information on the composition and working procedures of the Supervisory Board and its remuneration are provided in the Corporate Governance Report.

Audit of the annual financial statements, including the management report, and the consolidated financial statements, including the Group management report

The separate financial statements of Lenzing AG, together with the management report, and the consolidated financial statements of the Lenzing Group, together with the Group management report, as at December 31, 2017 were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, and granted an unqualified opinion. The Corporate Governance Report was evaluated by PwC Oberösterreich Wirtschaftsprüfung und Steuerberatung GmbH, Linz, which concluded that the statement by Lenzing AG on its compliance with the Austrian Code of Corporate Governance (January 2015) provides a true and fair representation of the actual situation.

The Audit Committee of the Supervisory Board reviewed the separate and consolidated financial statements, the management report and Group management report, the Management Board's recommendation for the use of accumulated profit and the Corporate Governance Report. The results of this review were subsequently discussed with the auditor in detail. The Audit Committee agreed with the results of the auditor's report based on its review and reported to the Supervisory Board on this matter as required. The committee also recommended that the Supervisory Board submit a proposal to the Annual General Meeting, calling for the appointment of KPMG Austria GmbH Wirtschaftsprüfungs-und Steuerberatungsgesellschaft as the auditor for the 2018 financial year.

The Supervisory Board formally approved the management report and Corporate Governance Report after its review and adopted the separate annual financial statements for 2017 in accordance with Section 96 Para. 4 of the Austrian Stock Corporation Act. Furthermore, the Supervisory Board stated its approval of the consolidated financial statements and Group management report in accordance with Sections 244 and 245a of the Austrian Commercial Code. In accordance with Section 96 Para. 1 and 2 of the Austrian Stock Corporation Act, the Supervisory Board reported that a separate non-financial report was prepared and audited. The Supervisory Board agrees with the Management Board's proposal for the use of accumulated profit. The Supervisory Board agrees with the recommendation by the Audit Committee and will therefore submit a proposal to the 74th Annual General Meeting for the appointment of KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as the auditor of the annual financial statements for the 2018 financial year.

Conflicts of interest

The Supervisory Board was not informed of any conflicts of interest on the part of Management Board or Supervisory Board members during the reporting year which would require disclosure to the Annual General Meeting.

My thanks

Over the past four years, I was able to help shape the company's development as Chairman of the Supervisory Board. Lenzing AG was in a difficult position during 2013. 2014 was initially characterized by a restructuring process that demanded a great deal from our employees and was supported by the wise leadership of Rudolf Baldinger, the long-standing Chairman of our Works' Council who died in a tragic accident. In the last three years we added a number of talented people, especially to the Management Board, who have consistently pursued the newly developed strategy and the related transformation of the company from a commodity to a specialty producer. There is still a great deal to do, but the current course is leading Lenzing in a future-oriented direction which is sustained by high innovative strength and outstanding professionalism. The resulting achievements are clearly reflected in the steady improvement of earnings and, in 2017, were crowned with the best results in the 80 years of history of the Lenzing AG.

On behalf of the entire Supervisory Board, I would like to thank the employees, employee representatives and the Management Board of the Lenzing Group for their continued commitment and congratulate everyone on the outstanding achievements which characterized the 2017 financial year. It was an extraordinary pleasure to accompany Lenzing on this part of the journey. I wish the company and its employees all the very best and good luck for the future!

Vienna, March 8, 2018
Hanno Bästlein

Innovative by nature – Interview with the Management Board

Stefan Doboczky, Chief Executive Officer of the Lenzing Group, Chief Commercial Officer Robert van de Kerkhof, Chief Financial Officer Thomas Obendrauf and Chief Technology Officer Heiko Arnold discuss the new brand world, milestones in product innovation and investments in new production locations.

2017 was a very positive year for the Lenzing Group, but was characterized by a difficult market environment during the final months. What were the decisive drivers for this development?

Stefan Doboczky: Two years ago we started with the implementation of our corporate strategy sCore TEN. It's no longer the most important thing to be the largest fiber producer with the highest market shares but to generate solid added value in the most attractive product segments. That is the reason for our focus on specialty fibers. Demand here is steady and strong, and prices are much more stable than in the viscose segment.

Thomas Obendrauf: Towards the end of the reporting year, the framework conditions were more difficult than in the first nine months. The prices for key raw materials like caustic soda rose substantially, and fiber prices were volatile. However, we were able to close 2017 with the best result in the history of the Lenzing Group due to the good product mix.

The most visible change is Lenzing's completely new brand world with a new logo, new visual presence and new brand personality. Are these changes related to the strategy shift?




Stefan Doboczky: Lenzing has been an innovation and technology leader in the fiber world for 80 years. With our new brands, we want to underscore the Group's strategic transformation and also accelerate the internal cultural transformation which is a key requirement for the implementation of our sCore TEN strategy. The new product brand architecture is designed to move us closer to end consumers and give them better support for their purchasing decisions. Our fibers have great added value for consumers, and we want to make this even clearer. This step is very consistent with the sCore TEN strategy and will differentiate us even stronger from the competition. Lenzing has always been "Innovative by nature", and that's why the new slogan fits so well with the company.

Robert van de Kerkhof: As a global supplier, it is essential that our brands are well received in all geographical regions. With TENCEL™ and VEOCEL™ we have therefore created clearly differentiated product brands for end customers in the textile and nonwoven application areas. Our B2B customers will still find product labelling like Modal.

TENCEL™ branded lyocell fibers and other product brands are now much more visible and will receive greater coverage in textile retailing. Will this transform the Lenzing Group from a fiber producer into a textile producer?

Robert van de Kerkhof: We have no intention of becoming a textile producer, that business belongs to our customers. However, we are convinced that a clear brand structure helps our customers to be more successful because it has a positive influence on consumers' purchasing decisions. This explains our decision to move from a B2B brand towards a B2B2C brand that is visible for consumers.

Stefan Doboczky: In line with our strategy, we want to offer solutions for the next steps on the value chain. We have been doing this with spun-dyed fibers for a long time. This direction is also reflected in our TENCEL™ Luxe branded lyocell filaments, which were introduced in October 2017. The main focus here is on sustainable solutions for the Haute Couture. Feedback from the luxury labels has been extremely positive and shows that we are on the right course.

Chief Commercial Officer Robert van de Kerkhof (CCO), Chief Executive Officer Stefan Doboczky (CEO), Chief Technical Officer Heiko Arnold (CTO) and Chief Financial Officer Thomas Obendrauf (CFO)

In addition to the change in the brands, construction activity is visible almost everywhere. How far advanced are the investments to expand production capacity?

Heiko Arnold: Our expansion plans are progressing at full speed, and the project in Heiligenkreuz will be completed by mid-2018. The first buildings in Mobile are standing, and this project now has our full attention. We also found a further production location for specialty fibers in Asia and reserved a site in Thailand where we want to construct a new TENCEL™ fiber plant with a capacity of 100,000 tons.

Thomas Obendrauf: In total, our investments more than doubled to EUR 238.8 mn in 2017. These projects were financed completely from cash flow – Lenzing's debt level declined even further during the past year and is now at a historical low.

Which customer groups does Lenzing plan to address more closely in the future? A new application and innovation center was opened in Hong Kong during the past year, and the company's presence in Turkey was strengthened.

Robert van de Kerkhof: Customer intimacy and partnerships for product development have moved into the focus of our sCore TEN strategy. We are expanding our presence in Asia because many of our customers are located there and develop new products in that region. With our application and innovation centers we want, in particular, to increase the use of new products.

> "The planned measures are progressing well. On the market, we are seeing a strong trend towards sustainable products – a topic which we have recognized well and developed into a key corporate value."

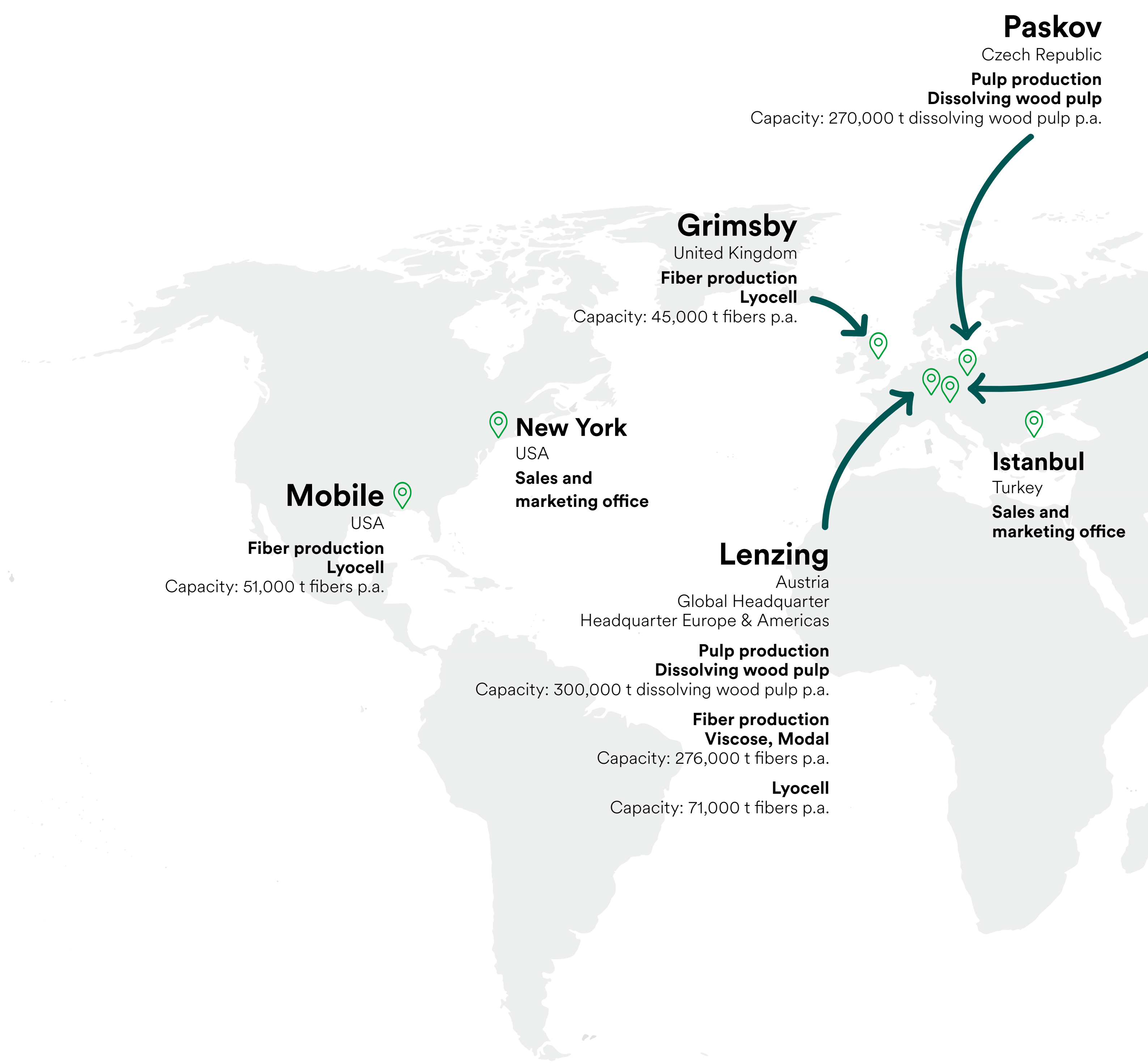
Let's stay with the subject of growth: What goals has Lenzing set for 2018?

Heiko Arnold: We have an ambitious investment program, which we will continue to realize in 2018. These projects will also add new production capacity for specialty fibers in 2018, and the expansion of our pulp production in Lenzing and Paskov should be completed in 2019. In other words, we have a lot to do.

Stefan Doboczky: The mood in the company is good and the planned measures are progressing well. On the market, we are seeing a strong trend towards sustainable products – a topic which we have recognized well and developed into a key corporate value. However, after a record year the market is becoming more difficult because new volumes are entering the commodity viscose market and some raw material prices are rising. We anticipated this development some time ago and are well positioned, but the headwinds will certainly grow stronger.

The Compa

The Locations of the Lenzing Group[1]



1) Nameplate capacities as at December 31, 2017


Heiligenkreuz
Austria
Fiber production
Lyocell
Capacity: 65,000 t fibers p.a.
Nanjing
China
Fiber production
Viscose
Capacity: 178,000 t fibers p.a.
Seoul
Korea
Sales and marketing office
Shanghai
China
Sales and marketing office
Coimbatore
India
Sales and marketing office
Hong Kong
China
Headquarter North Asia
Sales and marketing office
Singapore
Headquarter AMEA
(Asia, Middle East and Africa)
Sales and marketing office
Jakarta
Indonesia
Sales and marketing office
Purwakarta
Indonesia
Fiber production
Viscose
Capacity: 323,000 t fibers p.a.
Bangkok
Thailand
Office for planning a new fiber production plant

The Strategy of the Lenzing Group

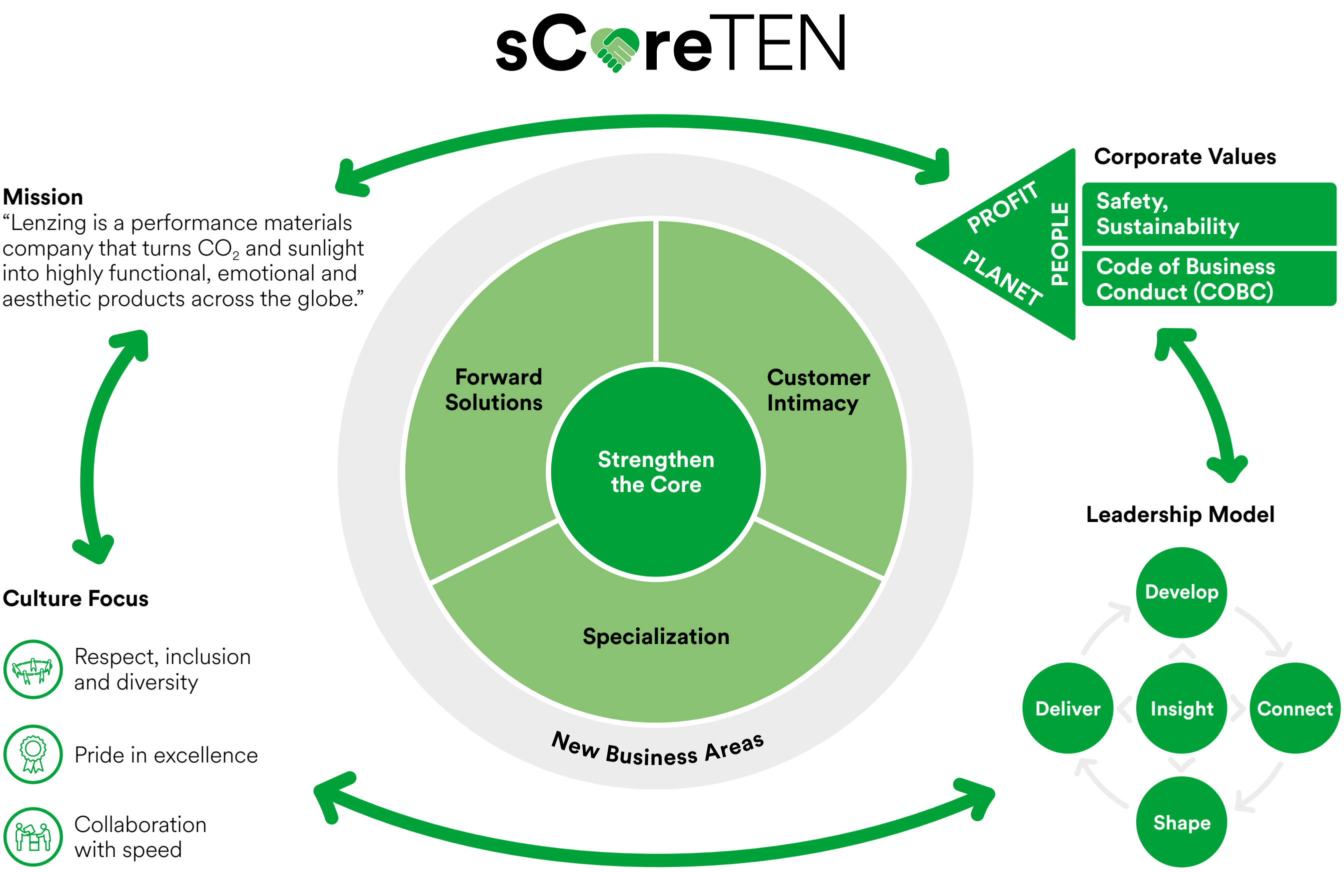
Since the introduction of sCore TEN corporate strategy two and a half years ago. the Lenzing Group has followed a group strategy that stands for a consistent performance orientation (scoring), the strengthening of the core business (core) and the company's long-term growth with specialty fibers. The heart in the logo represents the corporate values and culture which were developed as part of the strategy process. They form the fertile ground for the success of the Lenzing Group.

The primary objective of this strategy is to protect and expand Lenzing's leading role in the dynamic growth market for wood-based cellulose fibers. Lenzing concentrates on the most promising segments of the specialty fiber business and works closely together with its customers along the entire value chain to develop new and highly innovative product applications.

Lenzing expects the demand for wood-based cellulose fibers will increase 5 to 6 percent each year by 2020, meaning twice as fast as the global fiber market. This expansion will be driven primarily by steady population growth and rising prosperity in the emerging markets. The per capita textile consumption in the emerging markets is projected to rise by 50 percent from 2010 to 2020. In the industrialized countries, the use of nonwovens will benefit from the rising demand for hygiene products and is expected to grow twice as fast as the textile market.

sCore TEN is based on five strategic directions

- Strengthen the core: A greater share of Lenzing's pulp requirements – roughly 75 percent – will be secured by backward integration through an increase in the Group's own pulp production volumes and/or the expansion of strategic cooperations. Quality and technology leadership will be expanded.
- Customer intimacy: In order to increase its proximity to customers, Lenzing has established a regional competence center for product innovation in Hong Kong and is planning further steps to strengthen cooperation with its customers.
- Specialization: By 2020 Lenzing plans to generate 50 percent of its revenue with eco-friendly specialty fibers like TENCEL™ and VEOCEL™ and with other LENZING™ specialty fibers. Following the decision in favor of a further plant in Mobile (USA) and the securing of land in Prachinburi (Thailand) for the construction of a state-of-the-art lyocell fiber production plant, Lenzing will expand its production capacity for LENZING™ Lyocell fibers based on market requirements.
- Moving forward with new technologies: Lenzing will expand its research and development activities in selected areas along the value chain by means of new pioneering technologies. The latest examples of successful R&D innovations are REFIBRA™ recycling technology and TENCEL™ Luxe branded lyocell filaments.
- New business areas: Lenzing will use its core expertise to develop new attractive business areas over the medium- to long-term.



Sustainability at Lenzing

Sustainability is one of the fundamental values in the Lenzing Group and is firmly anchored in the sCore TEN strategy. The new sustainability strategy "Naturally Positive" was derived and developed from the corporate strategy in 2017: The Lenzing Group is in the unique position to operate a truly circular business model. Through the use of the raw material wood, Lenzing converts CO_2 and sunlight into functional, aesthetic and emotional products that are worn or used by people. LENZING™ fibers are biologically degradable at the end of their lifecycle and, in this way, create the basis for new plant growth.

This model of a circular economy forms the basis for the sustainability strategy of the Lenzing Group. The operational core elements are sustainable wood procurement and the responsible use of water. Largely closed production loops ensure the environmentally friendly production of LENZING™ fibers. Moreover, the sustainability strategy includes the decarbonization of production as a means of improving climate protection as well as support for sustainable innovations to replace resource-intensive and environmentally unfriendly products.

The Lenzing biorefinery

The Lenzing Group's biorefineries transform the raw material wood into valuable new basic products or bioenergy. This renewable natural raw material is utilized to 100 percent – as pulp, as biobased materials or as bioenergy. The result is a particularly sustainable and effective utilization of the wood.

Lenzing is the site of the world's largest integrated dissolving wood pulp and fiber production facility. In addition to the substantial commercial benefits resulting from the integration of pulp production, this method brings numerous ecological advantages. Lenzing enjoys double the savings over locations that are not integrated: by short transport routes as well as the elimination of energy-intensive drying and packaging of the dissolving wood pulp. A second location for the production of dissolving wood pulp is located in Paskov (Czech Republic).

Pulp production

Dissolving wood pulp is the starting product for the production of cellulose fibers, and the most important raw material for the production of dissolving wood pulp is wood. Lenzing's pulp production is based primarily on wood that is not suitable for higher-quality uses (for example in the furniture industry). Approximately 560,000 tons of dissolving wood pulp in total are produced each year at the plants in Lenzing and Paskov.

The mixture used for pulp production at the Lenzing plant is normally based primarily on beech wood, but can also include spruce, ash and maple. Spruce is the main type of wood used at the plant in Paskov. The logs are first debarked and hacked into wood chips, which are then processed in the biorefinery. The cellulose component – which represents roughly 40 percent of the wood – is separated as crude pulp, which is chlorine-free bleached and processed into flake or sheet pulp.

The annual production capacity for pulp at the end of 2017 totaled approximately 300,000 tons in Lenzing and approximately 270,000 tons in Paskov. This capacity will be expanded by 2019 through investments of EUR 100 mn.

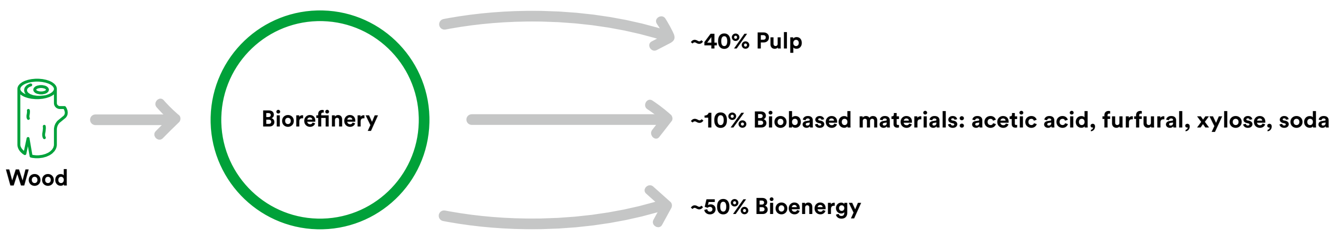
Biobased materials

In addition to pulp, Lenzing and Paskov also generate and market biobased materials. Lenzing's products include acetic acid, furfural and xylose as well as magnesium lignin sulfonate, which is also produced in Paskov. Soda is additionally produced at both locations. The production of these biobased materials supports the utilization of a further 10 percent of the wood.

Bioenergy

Nearly half of the wood consists of lignin, which is utilized energetically as bioenergy and represents the most important source of energy for the plants in Lenzing and Paskov. The latter is completely self-sufficient and also feeds surplus energy into the public electricity grid.

Highly efficient use of the raw material wood at the Lenzing Group's biorefineries



The new Lenzing brand world

With its sCore TEN corporate strategy – above all through the focus on specialty fibers and with a view to the needs of customers and partners – the Lenzing Group is very well positioned on the textile and nonwoven markets. “Maintaining our technological leadership, at the same time emphasizing partnerships and openness towards our stakeholders plus a stronger focus on the connection between our fibers and the people for whose benefit we develop them.“ That is the message behind the new brands, which is visible on the market beginning in 2018.

LENZING™ fibers are “Innovative by nature“ in two ways. Cellulose fibers made of wood are a natural product, which has been used by Lenzing for 80 years in innovative products for the production of textiles and nonwovens. All this is reflected in the slogan for the logo “Innovative by nature“, which replaces the previous slogan “Leading Fiber Innovation“. In addition, the previous technical B2B brand will be replaced by a very human and personal brand presentation. The redesign of the visual appearance for the entire Group and the product brands will move Lenzing close to end users and differentiate the company stronger from the competition. The friendly typeface and lively green “Thread of Life“ are further elements which underscore the new brand identity.

The new brand architecture

New look, new structure: The new architecture for the product brands is based on a simple system. End customers will now find clearly distinct product brands for textile and nonwoven applications with TENCEL™ and VEOCEL™. Below this top level, the previous product specifications for B2B customers will be logically structured by category, e.g. technology, product type or process.

TENCEL™ – the new brand for textile applications

All specialty products in the textile segment (e.g. TENCEL™ Denim, Intimate, Active, Home) and technological innovations like REFIBRA™ will be marketed under the TENCEL™ product brand. Specifications (like Modal) will still be visible for B2B customers, while TENCEL™ will stand for the characteristics of these lyocell fibers that are most important to end customers: the natural touch, comfort and feel-good qualities.

VEOCEL™ – the new brand for nonwoven applications

VEOCEL™ is the brand of choice for all producers who follow a natural approach for care and cleaning products. The focus here is also on the consumers who choose VEOCEL™ as a brand and look to quality and security in cleanliness and care. For the value chain in the nonwoven segment, this creates new possibilities for differentiation.

LENZING™ – the new brand for industrial applications

LENZING™ fibers are also ideally suited for technical applications like tea bags, coffee pads and filter fibers or as substitutes for synthetic fibers in agriculture. For these B2B applications, which are not important for end consumers, LENZING™ fibers will be marketed under the new LENZING™ brand.

New design, new scheme: The new brand architecture is based on a simple system – the corporate logo and product brands, clearly structured by segments of application, in textile and nonwoven and consumer-friendly in look & feel.

Lenzing

Innovative by nature

A human, personal B2Me Brand: Being closer to what life is all about, being well-known and attractive even on the consumer level and emerging stronger with regards to the competition: These are the economic underpinnings of the brand redesign.

Tencel™

Feels so right

For textile applications

Our flagship brand for textiles addresses consumers key preferences, by referring to our fibers’ natural touch, comfort and feel-good qualities.

Veocel™

Purely for you

For nonwovens

The new nonwoven brand VEOCEL™ is to become the ingredient of choice for leading brands focused on a natural approach to everyday care.

LENZING™

Industrial, newly positioned

The Industrial Application segment combines technical applications, co-products as well as protective wear and workwear. The focus is on B2B customers in the value chain.

The Lenzing product portfolio

The Lenzing Group uses the renewable raw material wood for the production of its products. LENZING™ fibers are used primarily for clothing, homes & interiors and hygiene products.

Biological degradability is in the nature of LENZING™ fibers. It closes the cycle – nature returns to nature. LENZING™ fibers combine the biological properties of natural fibers with the processing advantages of mechanically produced fibers.

LENZING™ Lyocell fibers

The Lenzing Group is a leading global producer of lyocell fibers. These fibers are botanic in origin because they are extracted from the raw material wood, and their production process is particularly ecofriendly due to the closed production process. More than 99 percent of the solvent is recovered and recycled. All this makes Lenzing's lyocell fibers the fibers of the future. This closed production process was recognized by the European Union with its European Award for the Environment. Products made of Lyocell fibers from Lenzing are more absorbent than cotton, softer than silk and cooler than linen. They are used in a wide range of applications that include sportswear, home textiles and mattresses as well as hygiene articles like wipes and baby wipes. Lyocell fibers from Lenzing are marketed primarily under the TENCEL™ and VEOCEL™ brands.

LENZING™ Modal fibers

The Lenzing Group's modal fibers are extracted from beech wood which is sourced in Austria and neighboring countries. The low fiber rigidity and modal cross-section make the fiber a natural softening agent. Measurements of the softness factor show that modal fibers from Lenzing are extremely soft – in other words, the softer the fiber, the finer the resulting textiles. Modal fibers from Lenzing can be blended with all types of fibers and processed using conventional machinery. Advantages such as mercerizability and uncomplicated processing are what make modal fibers from Lenzing the universal genius among cellulose fibers. These fibers are marketed primarily under the TENCEL™ brand.

LENZING™ FR fibers

LENZING™ FR is a high-performance cellulose fiber which is flame-resistant. Made of the natural raw material wood, this fiber guards against the heat resulting from many different areas of work: fire, radiant heat, electric arcs, molten metals and flash fires. The most important goal of protective clothing is to prevent the skin from burning.

LENZING™ Viscose fibers

Lenzing has been producing classic viscose fiber for 80 years. Viscose fibers from the Lenzing Group are made from the renewable raw material wood. Their cellulosic origin makes them botanic, moisture-absorbent and pleasant to wear. Viscose fibers from Lenzing are premium products on the global market and are used in clothing and hygiene articles. It is a preferred fiber brand for fashionable clothing fabrics and, in the hygiene sector where purity and absorbency have top priority, is used in products such as wipes, tampons and wound dressings.

Innovations and new products

With its innovative strength and focus on quality, Lenzing sets standards for the field of wood-based cellulose fibers. The latest innovations and new developments by the Lenzing Group include REFIBRA™ recycling technology, the identifiable LENZING™ ECOVERO™ branded viscose fibers and TENCEL™ Luxe branded filament yarn.

REFIBRA™

REFIBRA™ is a new technology for the production of TENCEL™ lyocell fibers, which is based on cotton scraps left over from the production of cotton clothing. TENCEL™ lyocell fibers with REFIBRA™ technology are the first cellulose fiber that uses wood as well as recycled materials for pulp production. With REFIBRA™, Lenzing is supporting new solutions to introduce a circular economy in the fashion industry and underscoring its position as a sustainable producer.

LENZING™ ECOVERO™

Lenzing's leading role in sustainability was underscored with the introduction of LENZING™ ECOVERO™, a viscose fiber with a very favorable ecological footprint compared to conventional viscose. Special technology supports the identification of this fiber in the finished products. The new system ensures the identification of LENZING™ ECOVERO™ fibers in the finished textiles, which guarantees transparency along the entire processing chain.

TENCEL™ Luxe

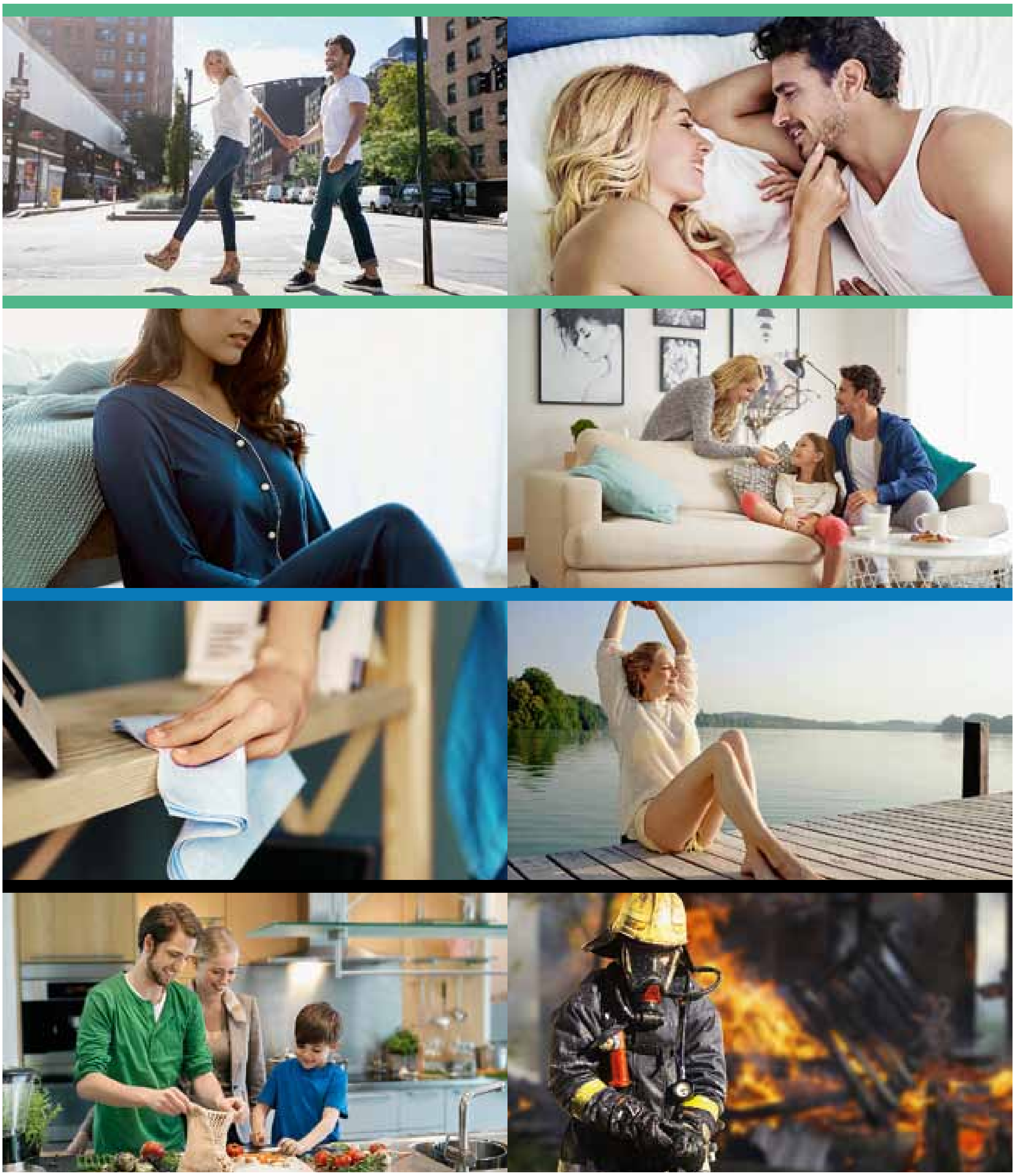
TENCEL™ Luxe branded filament yarn represents a further milestone in the implementation of the sCore TEN corporate strategy and marks Lenzing's entry into the filament market. TENCEL™ Luxe branded lyocell filaments are made of cellulose and do not require spinning. This “silk made from wood“ is produced in a closed production loop, which means only a little environmental impact due to low process water and energy use and economical raw materials consumption. With TENCEL™ Luxe filaments, Lenzing supports the luxury brands in the fashion industry and redefines the borders between sustainability and luxury fashion.

LENZING™ fiber applications

People can dress from head to toe in LENZING™ fibers, wardrobes are full of them. Whether in shoes, underwear, T-shirts, active wear or in more exquisite evening garments – LENZING™ fibers are everywhere.

There are also many different applications for LENZING™ fibers in sports activities: in T-shirts, fleece jackets, trousers for climbing, running, walking and yoga as well as sports shoes.

In the bathroom, LENZING™ fibers can be found in both hand and bath towels. They are soft and, at the same time, absorbent and easy-care. Hygienic and wet wipes are used for skin cleansing, in swabs and pads and in baby diapers and tampons.



Textile applications

Nonwoven applications

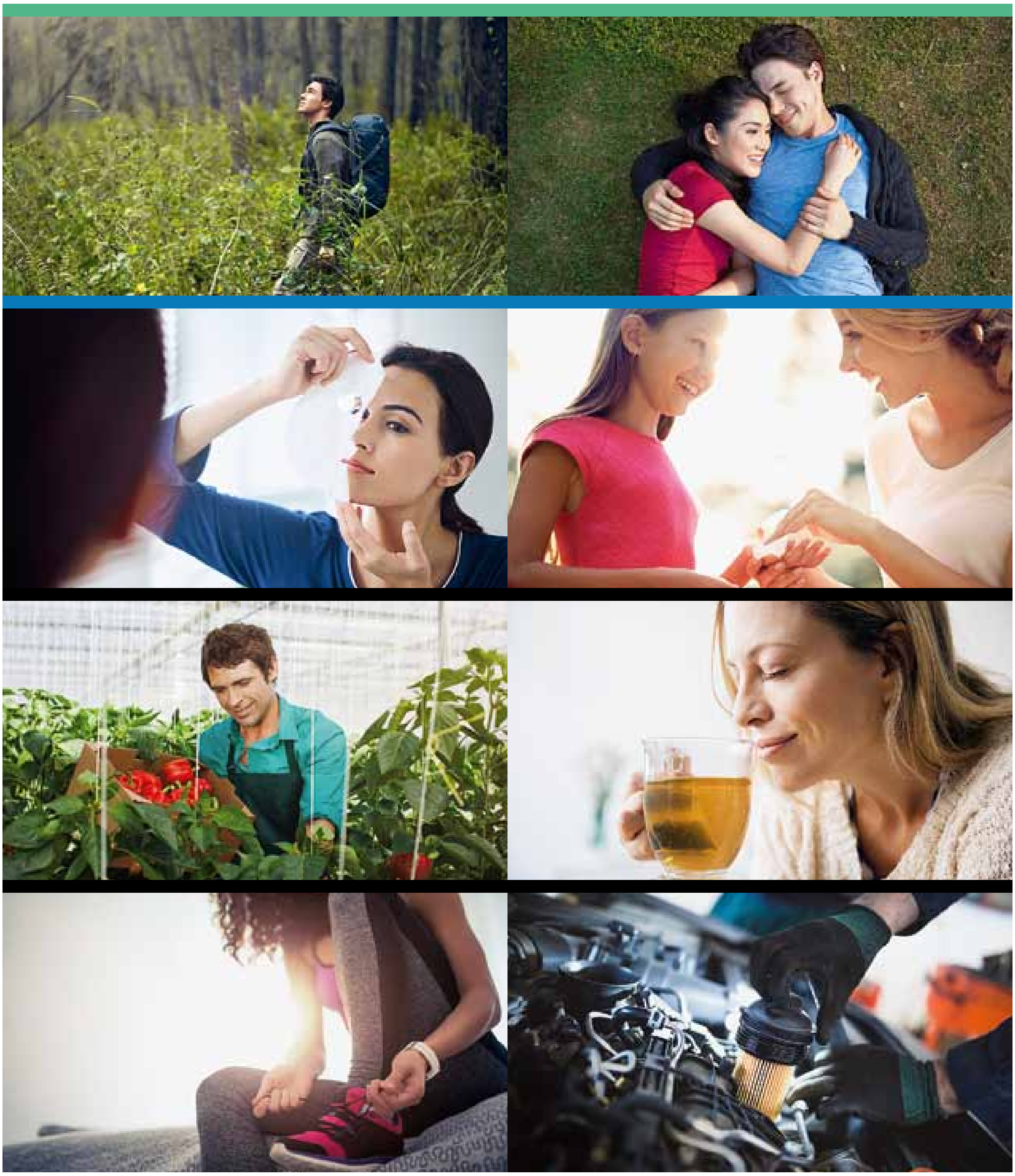
Industrial applications

The many different household applications include wipes made of LENZING™ fibers, and nets made of sustainable, biodegradable LENZING™ fibers for fruits and vegetables. Food retailers also use two co-products from Lenzing's fiber production: acetic acid and soda.

Applications for LENZING™ fibers in the medical sector include hygiene and wound care. LENZING™ fibers are also an essential component in protective clothing guarding against heat stress.

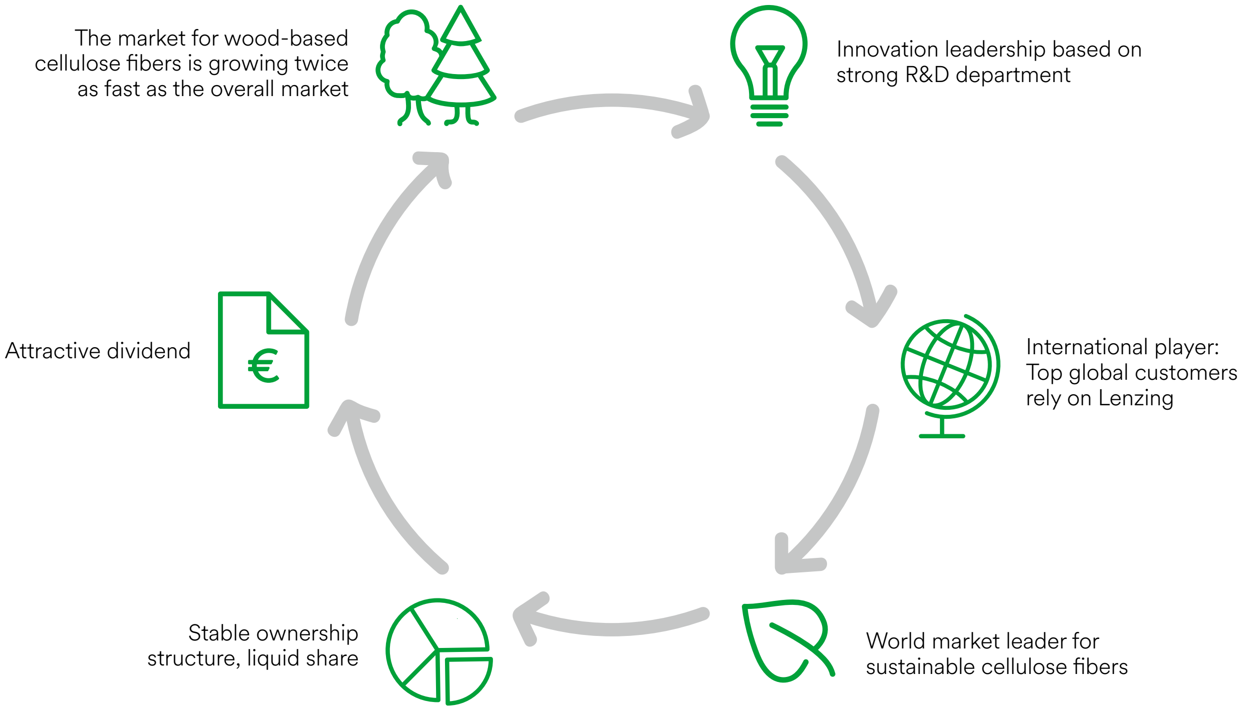
When people go to bed at night, they can relax in pajamas and on mattresses made with LENZING™ fibers. They also cover up with bed linens containing Lenzing products.

LENZING™ fibers are found in many areas of life. In the future, Lenzing plans to intensify its efforts to inform end consumers that they can also make a personal contribution to sustainability and environmental protection through their daily shopping decisions.



Investor relations and communications

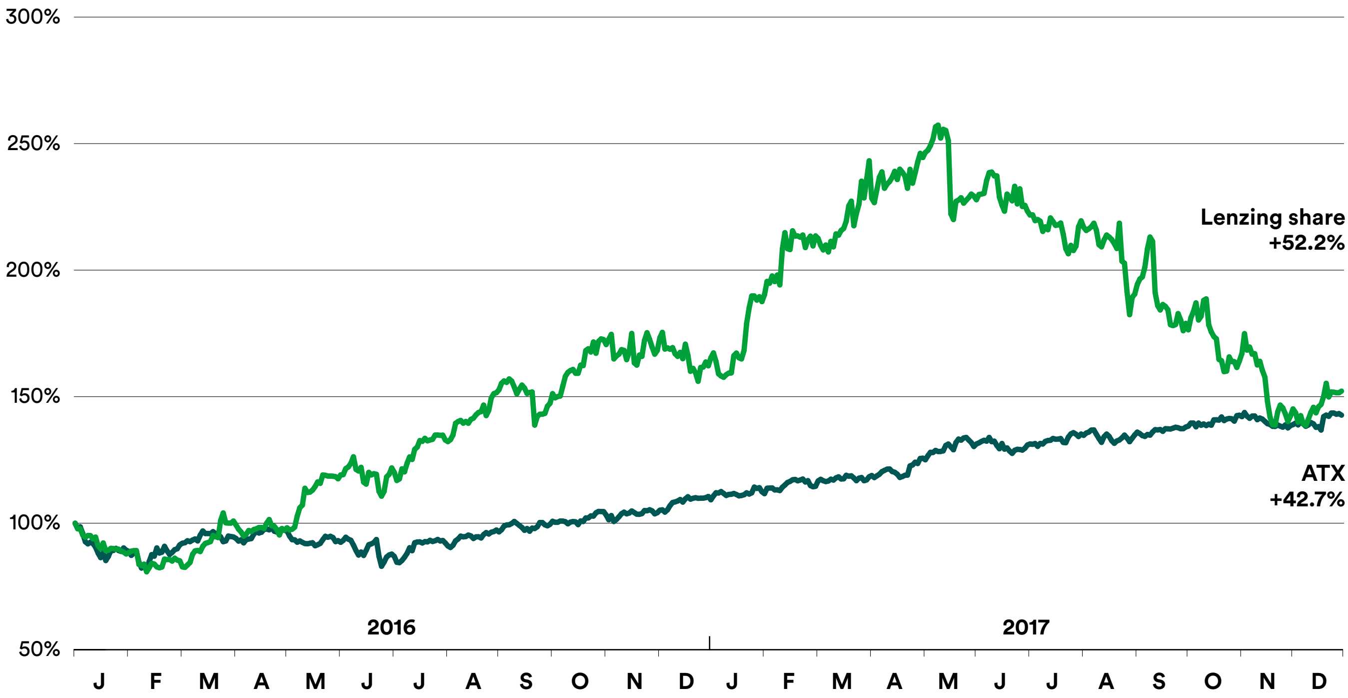
Equity Story



The Lenzing Group is the world market leader for the production of wood-based cellulose fibers with a market share of 18 percent. Lenzing expects the demand for wood-based cellulose fibers will rise by 5 to 6 percent each year by 2020 – in other words, nearly twice as fast as the global fiber market. Well-known global brand product retailers and international consumer goods chains have relied on Lenzing's extensive know-how and innovative strength for many years. A global network of marketing and sales offices allows Lenzing to remain close to its customers. Lenzing AG has a stable ownership structure. The share is very liquid and offers an attractive dividend.

The Lenzing share

The performance of the Lenzing share
Development of the Lenzing share in 2016/2017 (in percent)



2017 was a good year for the stock markets, above all due to the sound development of the global economy and ongoing low interest rates. The Vienna benchmark index ATX rose by a sound 30.6 percent to 3,420.14 points in 2017, while the US Dow Jones index increased by roughly 25 percent and the German DAX by 12.5 percent. The Lenzing share started the reporting year as the top ATX performer in 2016 and continued this successful trend up to mid-May. In May, the free float rose from 33.46 percent to 46.03 percent. This higher free float component had a positive effect on the liquidity and trading volume of the share during the year. However, the share price fell substantially during the second half-year and closed at EUR 105.85 on December 29, 2017. The annual low equaled EUR 95.75 and the annual high EUR 180.75. The Lenzing share rose by more than 52 percent in two-year comparison, compared with a roughly 43 percent increase by the ATX.

The Lenzing share is listed in the Prime Market Segment of the Vienna Stock Exchange. As one of the 20 largest publicly listed companies in Austria, Lenzing is included in the benchmark ATX index (Austrian Traded Index). The share is also part of the Vienna Stock Exchange Share Index WBI and, since 2005, the VÖNIX Sustainability Index.

The average daily turnover of the Lenzing share increased significantly from more than EUR 4 mn to over EUR 14 mn in 2017. The market capitalization at the end of 2017 (December 29, 2017) equaled EUR 2.8 bn.

Key indicators 2017

ISIN	AT 0000644505
Ticker symbol	LNZ
Initial listing	September 19, 1985
Indices	ATX Prime, VÖNIX, WBI
Number of shares	26,550,000
Share capital	EUR 27,574,071.43
Trading volume	25,917,778
Total turnover	EUR 3,529,487,451.44
Average daily turnover	EUR 14,289,422.88
Opening price on Jan. 2	EUR 116.35
Closing price on Dec. 29	EUR 105.85
Annual high	EUR 180.75
Annual low	EUR 95.75
Annual performance	-7.96%
Free float	46.03%
Market capitalization on Dec. 29	EUR 2,810,317,500.00

Investor relations activities

The strong development of business, consistent implementation of the sCore TEN corporate strategy and increased free float were reflected in a growing interest in Lenzing AG by the capital market during 2017. The open and transparent dialogue with capital market players and successful business development were also recognized by the capital market. Lenzing ranked second in the ATX for its investor relations, communications and share performance at the Vienna Stock Exchange Awards and rose to sixth place at the Austrian Financial Communications Award 2017.

An important goal of investor relations measures is to increase the recognition of Lenzing AG among sustainability-oriented investors. In addition to participating in established conferences and road shows in Europe and the USA, new international investor groups like sustainability investors and family offices were also addressed in 2017.

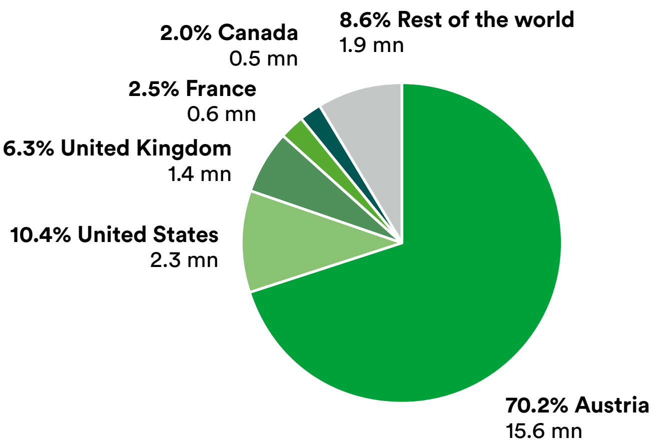
Lenzing took part in stock exchange information days during the reporting year and held plant tours at the corporate headquarters. Analysts and investors were also regularly provided with an overview of current operating and strategic developments in numerous conference calls and individual telephone conversations. The number of one-on-one contacts again equaled over 800 in 2017.

Shareholder structure

The Austrian B&C Group is the majority shareholder of Lenzing AG with an investment of 50 percent plus two shares. Oberbank AG, a leading Austrian regional bank, holds 3.97 percent of the shares. The free float equals 46.03 percent and is distributed among Austrian and international investors. The Lenzing Group does not hold any treasury shares.

The geographical distribution of the identifiable free float is as follows:

Shareholdings per country in percent and millions of shares
as at December 31, 2017 (22,266,029 shares identified)



Analyst coverage

Lenzing was covered by the following equity research companies in 2017: Baader Helvea, Berenberg Bank, Deutsche Bank, Erste Group, Kepler Cheuvreux, Landesbank Baden-Württemberg (paid coverage), Raiffeisen Centrobank.

The latest analyst research is available on the Lenzing website under: https://www.lenzing.com/en/investors/lenzing-share/analysts-consensus/

Annual General Meeting

The 73rd Annual General Meeting of Lenzing AG was held on April 25, 2017 in Lenzing. All of the proposed resolutions were approved by a high majority of the votes cast. The Annual General Meeting also approved a dividend of EUR 3.00 plus a special dividend of EUR 1.20 per no-par-value share for the 2016 financial year. Based on 26,550,000 shares, this corresponded to a total dividend payout of EUR 111,510,000.00.

Detailed information on the Annual General Meeting, the proposed resolutions and voting results are published on the Lenzing website under: https://www.lenzing.com/en/investors/shareholders-meeting/2017/

The Management Board and Supervisory Board will present a proposal to the 74th Annual General Meeting on April 12, 2018 calling for the payment of a EUR 3.00 dividend per no-par-value share as well as a special dividend of EUR 2.00 per share for the 2017 financial year.

Communication

The Lenzing Group further expanded its media activities in 2017 and held numerous press conferences in Austria and other countries to announce the publication of business results, the start of major investment projects, the opening of new sales and marketing offices and the presentation of new products. In March, the Management Board presented the most important business and financial indicators for the 2016 financial year in Vienna and held a press conference in connection with the groundbreaking ceremony for the capacity expansion at the plant in Heiligenkreuz. In April, the Lenzing Group invited customers and journalists to the opening of the first independent sales and marketing office in Istanbul (Turkey).

The most important business developments in the first half of 2017 were explained to journalists in Vienna during August 2017. In September, a press conference was held to announce the opening of the new application and innovation center (AIC) in Hong Kong. A further highlight was the presentation of TENCEL™ Luxe branded filament yarn at an exclusive event in the Palais de Tokyo during the Paris Fashion Week in October 2017.

Press conferences were also held at key trade fairs for the textile and nonwoven industries at many other international locations to inform customers and the trade press of Lenzing's latest innovations. One focal point covered innovative applications for the home textile and personal hygiene market. The REFIBRA™ and LENZING™ ECOVERO™ innovations were presented at numerous trade fairs.

Moreover, press releases and interviews informed the general public of the latest product and technological innovations, major investment and personnel decisions and social commitment as well as important awards and notable certifications. Lenzing's positioning as a sustainable and innovative company was underscored by numerous interviews in national and international general and financial media.

Awards

The Lenzing Group not only set new records for revenue and profits in 2017, but also received a number of well-known awards. For example: In June, Lenzing received the Pegasus in Gold, the most important business prize in Upper Austria, as the best flagship company in this province. In November, the Lenzing Group also won the Upper Austrian ranking of Austria's Leading Companies in the "International" category. At the Vienna Stock Exchange Award 2017 Lenzing was ranked second. Lenzing was nominated for the Energy Globe Award in the "Earth" category for its efforts on behalf of sustainability in general and for the introduction of REFIBRA™ recycling technology in particular.

Management Report 2017

General Market Environment

Global economy

The global economy[1] was characterized by a broad-based recovery in 2017. Estimates by the International Monetary Fund (IMF) indicate that worldwide economic output followed the 3.2 percent growth in 2016 with an increase to 3.7 percent. The industrialized economies recovered from the previous year's weakness with a plus of 2.3 percent (2016: 1.7 percent). In the emerging and development countries, economic momentum remained robust with an increase of 4.7 percent (2016: 4.4 percent).

The world's largest economies, the USA and China, both recorded stronger growth in 2017 according to the IMF. The US economy grew by 2.3 percent (2016: 1.5 percent), whereby this trend was only slowed by devastating hurricanes in the third quarter. The calculation for China shows a slight increase in growth to 6.8 percent. Japan and Canada also produced better economic indicators. The eurozone generated growth of 2.4 percent in 2017, compared with 1.8 percent in 2016. In Great Britain, which is currently in exit negotiations with the European Union, the economy weakened during 2017 according to the IMF. The economic reports from India were also less positive. In contrast, Brazil and Russia saw the first signs of a return to growth.

In spite of the general improvement in the economic climate, the IMF outlook sees a continuation of risks like the growing protectionism in global trade. A further issue still to be resolved is whether Great Britain and the EU will be able to agree on a free trade agreement. The upcoming exit from the European Union will have a negative influence, above all on London as a financial center, and is coupled with substantial uncertainty for the British economy. The IMF forecast also indicates a continuing high risk of geopolitical conflicts.

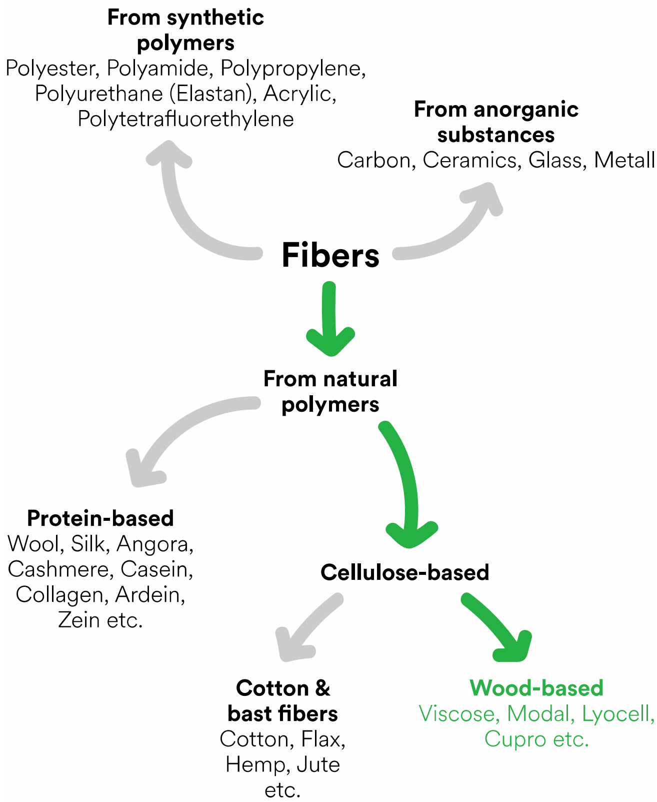
Global fiber market

Global fiber production exceeds consumption for the first time since 2014[2]

In 2017 the supply on the global fiber market exceeded demand for the first time since 2014. Initial estimates show an increase of 5 percent in worldwide fiber production to 105 mn tons (2016: 3 percent), while preliminary calculations indicate more moderate growth of 3.2 percent in worldwide fiber consumption to 104.8 mn tons (2016: increase of 1.7 percent).

The increase in worldwide fiber production is primarily attributable to the growth in cotton supplies. The expansion of the area under cultivation was reflected in an 11 percent year-on-year increase in the cotton harvest. Since consumption grew by "only" 3.2 percent during this same period, stock levels can be expected to rise – above all outside China. The higher cotton consumption is primarily a result of increased activity on the part of Asian spinning mills, especially in China, India and Pakistan, which together process more than 60 percent of cotton.

Fibers on the world market

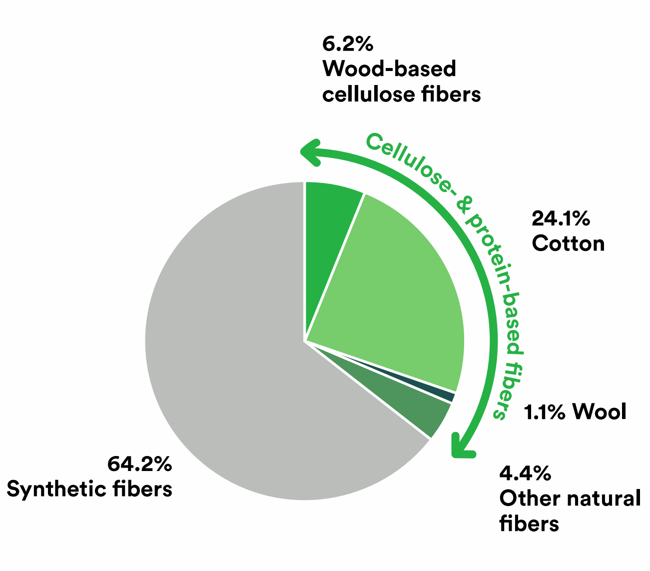


The market for wood-based cellulose fibers continued to grow, but at a much slower pace. Demand remained constant at a high level, but the increase of 0.5 percent in production to 6.5 mn tons was the weakest in nearly 10 years. The traded volumes of filaments were relatively stable in 2017. In contrast, the availability of staple fibers was influenced by several factors: production was slowed by stricter environmental regulations in China, while a plant shutdown in Taiwan and limited volume reductions in Indonesia were responsible for weaker overall production growth.

The market position of synthetic polymers continued to expand with a 3.9 percent increase in the production volume to 67.4 mn tons. This development was supported, above all, by an increase of more than 4 percent in polyester production to approximately 56 mn tons and nearly 4 percent in polyamide production to roughly 6 mn tons.

[1] Source: IMF, World Economic Outlook, January 2018
[2] The production-related data in this section was updated from the initial estimates published in the 2016 Annual Report. Sources: International Cotton Advisory Commitee (ICAC), IMF, Cotton Outlook, CCF Group (China Chemical Fibers and Textiles Consulting), Food and Agriculture Organization (FAO)

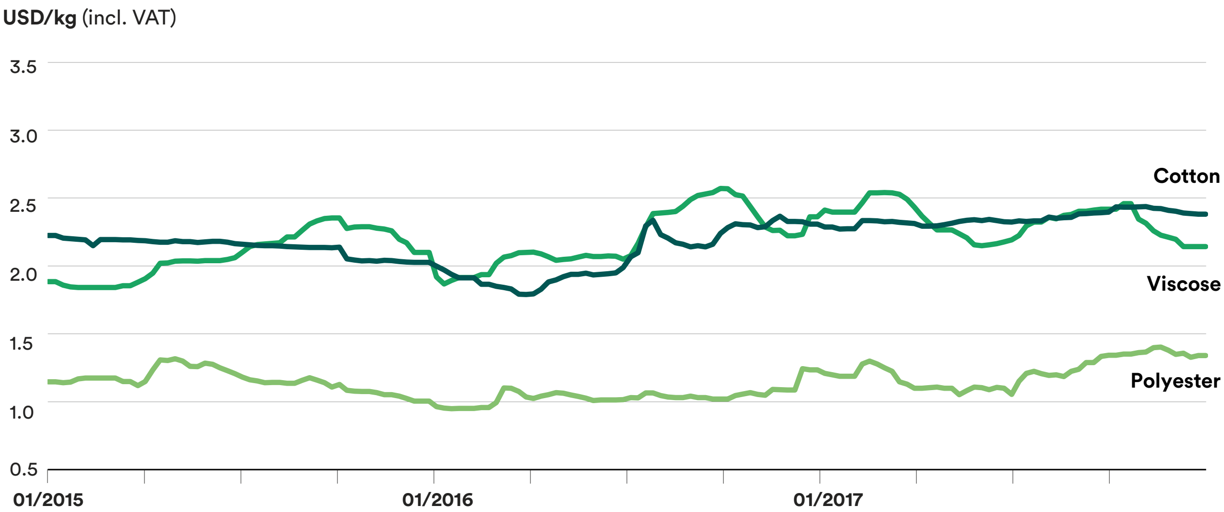
Global fiber consumption in 2017 by type of fiber in percent (basis = 105 mn tons)[1]



Further increase in viscose fiber prices in 2017

Average viscose prices rose by more than 6 percent year-on-year in 2017. The increase was supported by the limitations on available supplies created by environmental regulations in China and the delayed start-up of capacity expected at the end of 2017. Viscose prices were subject to comparatively large supply-related fluctuations, while cotton prices rose steadily throughout the entire year. The annualized price of cotton increased for the first time in three years, specifically by about 13 percent. After five consecutive years of price declines, polyester prices also rose significantly by nearly 17 percent in 2017.

Staple fiber prices – Development in China[2]



[1] Sources: ICAC, CIRFS, TFY, FEB, Lenzing estimates
[2] Sources: CCFG, Cotton Outlook

The Development of Business in the Lenzing Group

The Lenzing Group exceeded the excellent prior year results in 2017 despite an increasingly difficult market environment towards the end of the year. This development was reflected in an improvement in key business and financial indicators as well as record levels for revenue and EBITDA.

Group revenue rose by 5.9 percent from EUR 2.13 bn to EUR 2.26 bn in 2017, supported by higher fiber selling prices and a better product mix. This successfully offset slightly lower sales volumes. The focus on high-quality products had an even stronger effect on earnings: Group EBITDA (earnings before interest, tax, depreciation and amortization)* increased by 17.3 percent from EUR 428.3 mn to EUR 502.5 mn in 2017, and the EBITDA margin improved from 20.1 percent to 22.2 percent. Group EBIT (earnings before interest and tax)* grew by 25.2 percent from EUR 296.3 mn in 2016 to EUR 371 mn. This led to an improvement in the EBIT margin* to 16.4 percent (2016: 13.9 percent). Net profit for the year totaled EUR 281.7 mn, which represents an increase of 23 percent over the prior year level of EUR 229.1 mn.

A condensed version of the Lenzing Group's consolidated income statement for the 2017 financial year is presented below:

Condensed consolidated income statement[1] EUR mn

			Change	
	2017	2016	Nominal	Relative
Revenue	**2,259.4**	**2,134.1**	**125.3**	**5.9%**
Changes in inventories of finished goods, own work capitalized and other operating income	112.8	73.8	39.0	52.8%
Cost of material and other purchased services	(1,258.0)	(1,223.8)	(34.2)	2.8%
Personnel expenses	(349.4)	(319.2)	(30.1)	9.4%
Other operating expenses	(262.4)	(236.6)	(25.8)	10.9%
EBITDA	**502.5**	**428.3**	**74.2**	**17.3%**
Amortization of intangible assets and dpreciation of property, plant and equipment	(134.6)	(135.1)	0.5	(0.4)%
Income from the release of investment grants	3.1	3.1	(0.1)	(1.7)%
EBIT	**371.0**	**296.3**	**74.7**	**25.2%**
Financial result	(7.3)	3.1	(10.4)	n/a
Allocation of profit or loss to puttable non-controlling interests	(6.3)	(4.8)	(1.5)	31.0%
EBT	**357.4**	**294.6**	**62.8**	**21.3%**
Income tax expense	(75.7)	(65.5)	(10.2)	15.5%
Net profit for the year	**281.7**	**229.1**	**52.6**	**23.0%**

1) The complete consolidated income statement is presented in the consolidated financial statements.

* Definitions and details on the calculations are provided in the "Appendix: Notes on the Financial Performance Indicators of the Lenzing Group" at the end of the Group Management Report.

The Segment Fibers generated the largest share of Group revenue at EUR 2.24 bn, followed by the Segment Technik with EUR 12.8 mn. Revenue in the Segment Other equaled EUR 2.1 mn.

The cost of material and other purchased services rose slightly by 2.8 percent from EUR 1.22 bn to EUR 1.26 bn due to higher prices for pulp, caustic soda and other raw materials. However, long-term contracts with suppliers and the high share of internally produced pulp supplies limited the effects of these price increases. As a percent of Group revenue, the cost of material and other purchased services declined further to 55.7 percent in 2017 (2016: 57.3 percent of Group revenue).

Personnel expenses rose by 9.4 percent from EUR 319.2 mn in the previous year to EUR 349.4 mn, primarily due to the growth of the workforce and to wage and salary increases based on collective agreements in Austria, salary increases at other locations and higher provisions for bonuses to all employees based on the good development of business. In relation to Group revenue, personnel expenses were only slightly higher than the previous year at 15.5 percent (2016: 15 percent).

Depreciation and amortization were 0.4 percent lower than the previous year at EUR 134.6 mn in 2017.

Financial result was slightly negative at EUR minus 7.3 mn. The positive financial result in the previous year (EUR 3.1 mn) was attributable, above all, to the partial sale of an investment. Lower financing costs again helped to improve the total financial result and reduced the year-on-year decline.

Earnings before tax (EBT)* recorded by the Lenzing Group improved significantly from EUR 294.6 mn in 2016 to EUR 357.4 mn in 2017. Income tax expense totaled EUR 75.7 mn (2016: EUR 65.5 mn), and the income tax rate [1] equaled 21.2 percent. The sound development of business led to an increase of 23 percent in net profit from EUR 229.1 mn in 2016 to EUR 281.7 mn for the reporting year. Earnings per share[2] reflected this growth with an increase from EUR 8.48 to EUR 10.47.

Improvement in profitability indicators

The Lenzing Group also recorded an improvement in key profitability indicators during the reporting year. The return on capital employed (ROCE)* rose from 15.1 percent to 18.6 percent and the return on equity (ROE)* from 22.6 percent to 24.5 percent. The return on investment (ROI)* for the Group increased from 11.8 percent to 14.5 percent.

Increase in the equity ratio

Lenzing utilized the sound development of business and high liquidity for investments and debt reduction in 2017. This was reflected in a decline of 4.9 percent in total assets to EUR 2.50 bn as at December 31, 2017 (December 31, 2016: EUR 2.63 bn). The 9.9 percent increase in adjusted equity* from EUR 1.39 bn to EUR 1.53 bn led to a substantial improvement in the adjusted equity ratio* from 53 percent to 61.2 percent at year-end 2017.

Net financial debt* totaled EUR 66.8 mn as at December 31, 2017, compared with EUR 7.2 mn at year-end 2016. The ratio of net financial debt to EBITDA* equaled 0.1 percent at the end of 2017 compared with zero at the end of 2016. No receivables were sold on the basis of factoring agreements and derecognized during 2017 (December 31, 2016: EUR 83.3 mn). Net gearing* was also higher than the previous year at 4.4 percent (December 31, 2016: 0.5 percent). Trading working capital rose by 9.2 percent to EUR 414.4 mn, and the ratio of trading working capital to annualized Group revenue* increased from 17.1 percent in the previous year to 19.4 percent at the end of 2017.

Cash flow used for investments

Cash flow from operating activities* fell from EUR 473.4 mn in 2016 to EUR 271.1 mn in 2017 due to the increase in working capital. This development is attributable to an increase in inventories as well as a higher level of trade receivables. Cash CAPEX* (acquisition of intangible assets, property, plant and equipment) rose by 122.6 percent year-on-year to EUR 238.8 mn in 2017 (2016: EUR 107.2 mn).

The high level of investment, debt reduction and the dividend payment to shareholders led to a decline in the liquid assets held by the Lenzing Group to EUR 315.8 mn as at December 31, 2017 (December 31, 2016: EUR 570.4 mn). The Lenzing Group had unused credit lines totaling EUR 213.8 mn at its disposal at year-end 2017 (December 31, 2016: EUR 217.7 mn).

* Definitions and details on the calculations are provided in the "Appendix: Notes on the Financial Performance Indicators of the Lenzing Group" at the end of the Group Management Report.

[1] Income tax expense in relation to earnings before tax (EBT)

[2] The net profit/loss attributable to Lenzing AG shareholders in relation to the average weighted number of issued shares calculated in accordance with IFRS (IAS 33 Earnings Per Share); the precise calculation can be seen in Note 17 of the notes to the consolidated financial statements

The Development of Business in the Segments

Segment Fibers

Activities in 2017 focused on the further optimization of production processes to increase capacity and the construction of new production lines as well as the expansion of Lenzing's market presence in Asia and Turkey. Capacity utilization in the pulp and fiber production plants was very high throughout the entire year due to the good demand for LENZING™ fibers.

Wood

Supply and demand on the Central European wood market that services the pulp production locations in Lenzing (Austria) and Paskov (Czech Republic) were heavily influenced by climatic, ecological and geopolitical factors in 2017. The long, cold winter led to an increased demand for beech firewood at the beginning of the year. Supplies were also limited by the continuing Ukrainian ban on round timber exports.

Softwood prices remained at a low level during the year because of continuing problems with pests and the result of severe storms. Heavy beetle infestation similar to 2016, especially in the north of the Czech Republic, led forestry managers to increase logging operations above the prescribed sustainable level and resulted in higher volumes of spruce entering the market. Supplies were also expanded by several million cubic meters of damaged wood caused by the "Herwart" low-pressure system in southern Germany, Austria and the Czech Republic. In contrast, hardwood supplies were lower than the previous year due to the necessary increased felling of softwood. Another influencing factor was a project by the Hungarian government to provide needy citizens with beech firewood.

This market distortion led to a shift in Lenzing's procurement volumes toward Western Europe. It also secured supplies of beech wood and ensured adequately filled storage facilities for the winter. Beech wood prices were constant at a low level, primarily due to long-term supply contracts. As a result of the oversupply of spruce wood, the Lenzing Group's second pulp plant in Paskov had sufficient stocks for the winter and was able to extend the favorable purchase prices from the previous year.

The forestry certification systems – Forest Stewardship Council® (FSC®) and Program for the Endorsement of Forest Certification™ (PEFC™) – were audited in Lenzing and Paskov during 2017. The audits confirmed that, in addition to compliance with the strict forestry regulations in the supplying countries, all wood used by the Lenzing Group comes from PEFC™- and FSC®-certified or -controlled sources. Controversial wood sources are therefore definitely excluded.

Biorefinery

Pulp

The Pulp & Wood business area supplies the Lenzing Group's fiber production locations with high-quality dissolving wood pulp. It operates dissolving wood pulp production plants in Lenzing and Paskov, which cover roughly 56 percent of the Group's dissolving wood pulp requirements. The remaining volumes are purchased on the basis of long-term contracts. Dissolving wood pulp is the most important raw material for the production of cellulose fibers by Lenzing and is derived from the renewable raw material wood.

The Lenzing Group's two pulp plants produced approximately 560,000 tons of pulp in total during 2017: approximately 300,000 tons in Lenzing and approximately 260,000 tons in Paskov. The spot market price for pulp was slightly higher year-on-year. The average market price equaled USD 898/ton in 2017, compared with USD 888/ton in 2016.

The EUR 100 mn projects for the expansion of production capacity and the upgrading of equipment in these two plants, which were approved in 2016, are proceeding on schedule.

Biobased materials

Developments on the markets for biobased materials were favorable in 2017. Xylose production volumes continued to rise. Higher volumes of acetic acid led to an improvement in earnings, while a shortage of furfural supplies in China led to a sharp rise in prices and a substantial increase in earnings.

The biobased materials produced by the Lenzing Group in its biorefinery – acetic acid, furfural and magnesium lignin sulfonate – were awarded the Biobased Product Label by the US Department of Agriculture (USDA) in 2017. This certification is further official proof that the Lenzing Group's products are 100 percent biobased and made from the natural and renewable resource wood.

Energy

The Lenzing Group's procurement strategy for the key cost components, electricity and natural gas, is based on spot market prices. There was a sharp trend reversal in electricity prices during 2017, with an increase of nearly 30 percent after five consecutive years of price declines. The cold wave in Europe led to considerable price increases, especially at the beginning of the year. At the same time, several power plants in France were only available on a limited basis. The energy markets were generally characterized by rising prices in 2017, whereby oil and coal prices also increased substantially after several years at low levels. Despite the good availability of liquid natural gas, the development of crude oil prices also reached the European natural gas markets with a plus of more than 30 percent.

Operations in the Lenzing Group's energy production facilities were generally normal in 2017, with only very short downtimes. The site in Lenzing traditionally uses renewable fuels, primarily from the biorefinery, as its most important source of energy due to the optimal structure of the facility. The use of conventional fossil fuels like oil, coal and natural gas equaled only 19.1 percent of total energy consumption in 2017. The continuous improvement and optimization of the plants and consumption continued during the reporting year.

The plant in Paskov (Czech Republic) was also energy self-sufficient in 2017, and fossil fuels are not required for normal operations. Surplus energy was fed into the public electricity grid. Operations at the plant in Purwakarta (Indonesia) were further optimized, for example through measures to reduce sulfur dioxide emissions. The high coal price in Asia led to higher energy costs for both the plants in Purwakarta and Nanjing (China).

Other raw materials

Chemical prices varied widely on a regional basis in 2017. Developments on the raw material markets in Europe were relatively stable, with the exception of caustic soda. In Asia, the raw material markets were more volatile due to the stronger fluctuations between supply and demand.

Caustic soda

Caustic soda is used in the production of pulp and is also an important primary product for the production of viscose fibers as well as a by-product from chlorine production. The price of caustic soda in Europe increased substantially in 2017, above all during the second half-year. This upward trend was the result of production breakdowns at European producers and the end of mercury-based production processes, which reduced the European capacity for caustic soda by roughly 10 percent. In Asia, caustic soda prices also increased significantly during the course of the year.

Sulfur

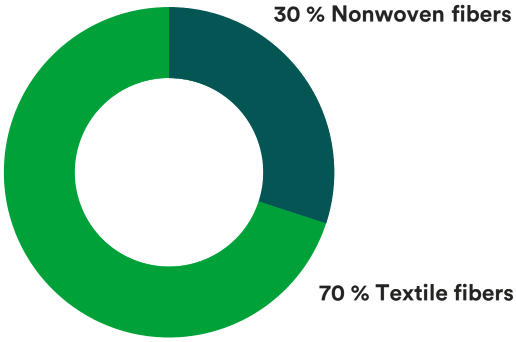
Sulfur is a key basic product for the production of carbon disulfide and sulfuric acid, which are used in viscose fiber production. The decline in sulfur prices on the European markets that began in the second quarter of 2016 continued during the reporting year, consistent with the oversupply on this market. In Asia, prices rose steadily and peaked during the fourth quarter of 2017.

Fibers

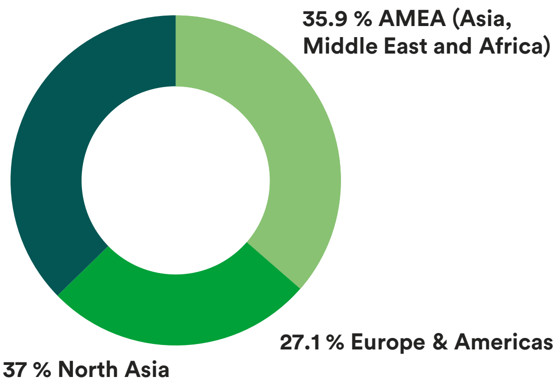
Revenue generated by the Segment Fibers rose by 6 percent to EUR 2.24 bn in 2017. In the previous year, revenue in this segment amounted to EUR 2.12 bn. Segment EBITDA rose by 16.5 percent to EUR 499.2 mn (2016: EUR 428.5 mn) and segment EBIT increased by 24.2 percent to EUR 364.8 mn (2016: EUR 293.7 mn).

Fiber sales totaled EUR 1.96 bn, with 70 percent attributable to textile fibers and 30 percent to nonwoven applications. The sales regions were North-Asia, followed by AMEA (Asia, Middle East and Africa) and Europe & Americas.

Fiber revenue by segment in percent

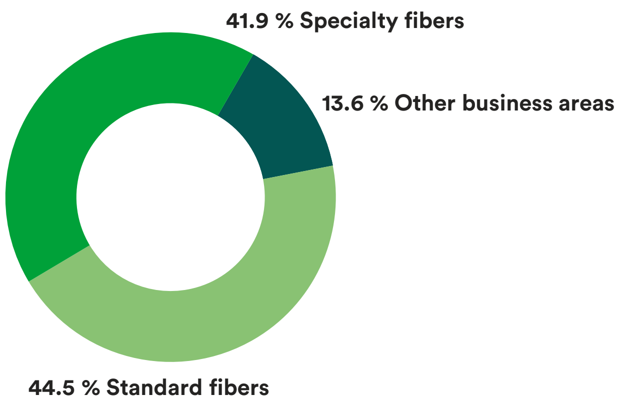


Fiber revenue by core market in percent



The total fiber sales volume declined by 3.7 percent to approximately 942,000 tons in 2017 (2016: 978,000 tons) as a result of the increasing specialization and quality improvement measures. The share of specialty fibers in Group revenue equaled 41.9 percent, compared with 42 percent in the previous year, while the share of standard fibers declined to 44.5 percent. The share attributable to the other business areas rose from 11 percent to 13.6 percent in 2017.

Lenzing Group revenue: Share of specialty fibers in percent



Textile fibers

The consistent implementation of the sCore TEN corporate strategy and, in particular, the increased focus on high-quality specialty fibers again proved to be successful in 2017. Lenzing's textile fibers are marketed primarily under the TENCEL™ brand. The demand for TENCEL™ fibers in all subsegments remained high during the reporting year – from apparel to home & interior applications and protective clothing. Customers' reactions to the most important new product innovations were extremely positive: LENZING™ ECOVERO™ fibers, TENCEL™ Luxe filaments and TENCEL™ Lyocell fibers with REFIBRA™ technology. These product innovations strengthen the Lenzing Group's role as a pioneer for innovation and sustainability in the textile and fashion sector.

Apparel

Apparel, the largest business area in the Lenzing Group, recorded a further increase in revenue from the sale of specialty fibers in 2017. This growth was driven primarily by the greater use of TENCEL™ Lyocell fibers and TENCEL™ Modal fibers in high-quality textile applications. This development was supported, above all, by a stronger focus on targeted marketing activities and an even clearer orientation on the requirements of partners along the entire value chain up to fashion retailers. At the same time, the Lenzing Group strengthened its commitment to improving product quality.

The Lenzing Group structures its marketing activities for the apparel business based on three subsegments: denim (jeans), innerwear (underwear, nightwear, T-shirts and tops) and activewear & outerwear (sportswear, shirts, dresses etc.).

The denim subsegment remained on a strong growth course during 2017. The demand for TENCEL™ Lyocell fibers continued to increase in both the innerwear and outerwear businesses. TENCEL™ Modal fibers are in high demand for innerwear products due to their particular softness and high wearing comfort in figure-hugging applications.

With the introduction of LENZING™ ECOVERO™ fibers, the Lenzing Group is addressing the growing interest in ecologically sustainable fiber production by its partners along the value chain. Both LENZING™ ECOVERO™ fibers and TENCEL™ Lyocell fibers with REFIBRA™ technology are equipped with special identification technology which creates greater transparency in the fashion sector and guarantees traceability throughout the entire production chain. There are no comparable products on the market at the present time, which explains the marketing of these two fiber types as specialty fibers.

The presentation of TENCEL™ Luxe filaments at an exclusive event in Paris during 2017 represents a further milestone in the implementation of the sCore TEN corporate strategy and marks Lenzing's entry into the filament market. The initial feedback from fashion brands in the luxury segment is very positive. Collections with TENCEL™ Luxe filaments have been under development for the retail sector since 2017.

Home & Interiors

The Lenzing Group's specialty fibers found increasing use in the Home & Interiors segment in 2017. Consumers have valued bed linens and voluminous products like quilts made of TENCEL™ Lyocell fibers for many years because of their silky texture, excellent moisture management and skin friendliness. For the hotel and hospitality sector, the Lenzing Group has developed solutions for bed linens and established partnerships with key market players like laundry services. Carpets are another very promising business area due to their softness and sustainability benefits. The development of special TENCEL™ Lyocell fibers for carpet applications has led to increased interest on the part of well-known producers.

Work and protective clothing

Demand for the high-performance LENZING™ FR fiber in the work clothes and protective clothing subsegment was also high throughout the reporting year. New customers were acquired, above all in the Middle East, and demand was strong in the emerging Asian countries. LENZING™ FR fibers are ideally suited for flame-resistant protective clothing due to their fire resistance and comfort and help to reduce heat stress for the wearer. LENZING™ FR fibers can also be spun-dyed during production. That eliminates one processing step and helps partners make their production more sustainable.

Nonwoven fibers

The nonwovens business recorded further stable growth in 2017. Demand in this area was generally high and, similar to the previous year, brought a slight shift to viscose fibers.

VEOCEL™ Lyocell fibers again generated sound revenue in spite of this trend. Due to their skin compatibility, odor resistance and high wet strength, they are particularly suitable for hygiene products. Moreover, these fibers have sustainability-related advantages which include the environmentally friendly origin of the raw material and the biodegradability of the fibers. Lenzing also supplies the basic material for hygienic products with its VEOCEL™ Lyocell Shortcut fibers, which are disposable with wastewater. This "flushability" is becoming an increasingly important aspect for the nonwoven industry.

Asia is an increasingly important for wipes and care wipes, even though the largest markets are still located in Europe and the USA. Moistened toilet paper represents an important growth driver for VEOCEL™ fibers, and the market penetration is increasing.

Face masks represent a specific application of VEOCEL™ fibers for the cosmetic segment in Asia. This form of skincare has become the standard in recent years. The Lenzing Group has established an excellent position in this submarket with VEOCEL™ Skin fibers, a specially developed product which is generating a steadily rising volume of business.

Technical applications

Cellulose fibers made by the Lenzing Group are also very well suited for technical applications. They are increasingly combined, above all, in applications with lyocell fibers from Lenzing because of their biodegradability and consistent high quality.

At the Techtextil trade fair in Frankfurt, the Lenzing Group introduced the first botanic solution made of LENZING™ Lyocell fibers for the agricultural sector in May 2017. These fibers are made of the natural raw material wood and, due to their fiber profile, are ideal for these applications and reduce the use of plastic in farming.

In the second half of 2017, the range of applications for hot drinks was expanded to include tea bags and coffee pads. LENZING™ Lyocell fibers are also increasingly used in shoes, packaging and filter applications.

Fiber production co-product

The Lenzing Group produces sodium sulfate as a co-product at all locations where fibers or modal fibers are made. Sodium sulfate is used to produce foodstuffs and animal feed and also by the pharmaceutical, detergent and construction industries.

The plant in Lenzing recorded slightly lower net revenue from sodium sulfate sales in 2017 due to an oversupply on the European market and high freight costs which had a negative effect on exports. This decline was more than offset by a steady increase in prices and net revenue at the Asian locations. Developments in Asia were influenced by a reduction in production volumes in the People's Republic of China following the stricter control of compliance with environmental standards and the resulting massive shortage of sodium sulfate in this region.

Global Technical Customer Service

The regional customer service teams in Lenzing's Global Technical Customer Service (GTCS) were strengthened in 2017 to further improve the proximity to customers and expand the technological base.

In September 2017, the Lenzing Group set another milestone to intensify its cooperation with partners along the value chain with the opening of a new application and innovation center (AIC) in Hong Kong – where solutions for textile applications can be developed together with customers on spinning, weaving and knitting machines. Work to expand the AIC in Indonesia also started in 2017 and is scheduled for completion in 2018. These new state-of-the-art service centers concentrate on technical consulting, education and training, product and process development, quality management and fabric certification.

Enterprise Excellence (EPEX)

The goal of the "Enterprise Excellence" (EPEX) group-wide program is to strengthen the positioning of the Lenzing Group and all its employees as a sustainable self-learning and optimizing company. A central aspect of this program is mutual learning and exchanges within the Lenzing Group.

"Heartbeat for Lenzing" was expanded in 2016 to cover all activities involving continuous improvement in the areas of safety and quality. This cooperation was strengthened in 2017, in part through the organization of a global conference in June 2017 to harmonize current actions and define future focal points.

Segment Lenzing Technik

Lenzing Technik is a supplier of pulp technology and filtration and separation technology. In addition, it has a mechanical construction unit that operates as a production area within the Lenzing Group.

Lenzing Technik recorded an increase in revenue and earnings in 2017, above all as a result of the Group's investment activity. Revenue rose by 17.7 percent to EUR 42.3 mn (2016: EUR 35.9 mn). Of this total, EUR 12.8 mn are attributable to customers outside the Lenzing Group (2016: EUR 14 mn). EBITDA was again clearly positive at EUR 3.5 mn in 2017 (2016: minus EUR 0.5 mn). The number of employees in Lenzing Technik, including apprentices, equaled 210 as at December 31, 2017 (December 31, 2016: 208).

Filtration and Separation Technology

As a pioneer in the field of solid-liquid separation, this business area concentrates on the development and realization of solutions for customer-specific filtration applications. These flexible filtration systems help customers make their production processes more efficient and economical. The positive development of business in this area continued during 2017. The consistent implementation of the business area and corporate strategies led to an improvement in both brand awareness and recognition. Customers include well-known companies in many different sectors like the chemical industry, automobile and food producers and the energy industry. Continuous innovation forms the basis for the steady expansion of the product portfolio and the development of new applications. The sales network was also increased to improve market penetration.

Pulp Technology

The Pulp Technology business area is the Lenzing Group's competence center for the planning and implementation of pulp projects. It offers a full range of engineering services which include, for example, the preparation of feasibility studies, project management and related services as well as the provision and delivery of equipment. This business area's customers are located throughout the world, both inside and outside the Lenzing Group. The Pulp Technology business area plays a decisive role in the strategic increase in pulp integration within the Lenzing Group.

Mechanical Construction

The Mechanical Construction business area manufactures equipment for the Pulp Technology as well as the Filtration and Separation Technology business areas and also provides sophisticated machinery and aggregate components for all plants in the Lenzing Group. Activities in 2017 focused on the expansion of specialty fiber capacity in the Lenzing Group.

Investments

A number of investment projects based on the sCore TEN corporate strategy were launched during the reporting year. The projects involve the backwards integration of pulp through the expansion of the plants in Lenzing and Paskov as well as an increase in the capacity for specialty fibers through the expansion of the plant in Heiligenkreuz (Austria) and the construction of a new production facility adjacent to the existing plant in Mobile, Alabama (USA). Cash CAPEX (acquisition of intangible assets, property, plant and equipment) more than doubled from EUR 107.2 mn in 2016 to EUR 238.8 mn in 2017.

In line with the sCore TEN strategy, the Lenzing Group plans to raise the share of specialty fibers in revenue to 50 percent and increase the internal production of pulp towards 75 percent of total requirements by 2020.

The expansion and modernization of the dissolving wood pulp plants in Lenzing (Austria) and Paskov (Czech Republic) are expected to increase pulp production capacity by roughly 35,000 tons annually by mid-2019.

A further investment decision to increase specialty fiber capacity was made in 2017. Following the start of expansion projects in Heiligenkreuz and Mobile, the Supervisory Board approved a recommendation by the Management Board in June 2017 to secure a site in Thailand for the next state-of-the-art plant for the production of lyocell fibers and to establish a local subsidiary. This location will strengthen the Lenzing Group's worldwide network and make it possible for global customers to purchase lyocell fibers from Lenzing in Europe, North America and Asia. The planned production facility will have a capacity of up to 100,000 tons. An office has been opened in Bangkok to organize the technical planning, obtain the necessary permits and hire personnel.

Construction on the new lyocell fiber plant in Mobile is also proceeding at full speed. This plant will have a production capacity of 90,000 tons and is scheduled to start operations in 2019.

The groundbreaking ceremony for the expansion of specialty fiber capacity in Heiligenkreuz (Austria) took place in March 2017. Approximately EUR 70 mn will be invested by mid-2018 to increase production capacity at this location. Smaller expansion investments in Lenzing and Grimsby (Great Britain) were, for the most part, completed in 2017.

Research and Development

Research and development activities in the Lenzing Group are concentrated in the Global R&D Department, a corporate unit in Lenzing. This central research is closely linked to other business areas such as production, engineering, business development, application technology, customer service and sales. There has also been an extensive exchange of know-how with the new application and innovation center in Hong Kong, which opened in 2017. It provides a setting for the development of new applications for Lenzing fibers together with customers and helps the Lenzing Group to further intensify its cooperation with partners along the value chain. The application and innovation center in Hong Kong represents a perfect complement to the application center in Lenzing, which is also equipped with state-of-the-art machinery for various textile processes.

A team of 192 employees was involved in Global R&D at the end of the reporting year, where they worked on new developments and improvements in processes, products and applications for cellulose. R&D expenditures, calculated according to the Frascati method (i.e. after the deduction of subsidies), rose by 19.4 percent to EUR 55.4 mn in 2017 (2016: EUR 46.4 mn) and included major investments in the R&D infrastructure in Lenzing. These high expenditures represent a peak value in industry comparison, both as a percentage of revenue and in absolute terms. The achievements of Global R&D are reflected, among others, in 1,274 patents and patent applications (from 215 patent families) held by the Lenzing Group in 49 countries throughout the world. In order to protect and expand its innovation leadership in the production of cellulose fibers over the long-term, Lenzing intends to further increase these efforts in the future.

Focal points in 2017

A number of product innovations in which sustainability plays a key role were introduced to the market in 2017. TENCEL™ Lyocell fibers with REFIBRA™ technology are the world's first lyocell fibers made in part of recycled materials. The rising demand for ecologically compatible products is also met by LENZING™ ECOVERO™ fibers, which create greater transparency in the fashion sector with their special identification technology. Another milestone is the development of TENCEL™ Luxe filaments, which are currently produced at a pilot plant in Lenzing.

Innovations like these are only possible with appropriate technological developments, which range from pulp production to the production processes for the various fiber types. The R&D focal points for pulp included optimization measures (closing of further loops, quality improvements), biorefinery concepts to further improve the utilization of the raw material wood and planned capacity expansion projects (including new technologies). In the Segment Fibers, Global R&D is also supporting the current and planned expansion of capacity for the production of lyocell fibers. These activities cover the development of new technologies as well as the optimization of existing plants.

Non-financial Performance Indicators

Sustainability

Environmental protection, sustainable business development and responsibility for people are part of Lenzing's fundamental values. Sustainability is therefore anchored in the sCore TEN strategy as one of the key values.

Focal points in 2017

The Lenzing Group presented its new sustainability strategy "Naturally Positive" in April 2017. It is based on the "3-P" dimensions: People – Planet – Profit. Within the framework of this concept, the Lenzing Group has defined four core areas in which it is developing solutions to meet current and future challenges and making contributions that provide added benefits for people and the environment.

The core operating elements in this implementation include sustainable wood procurement, the responsible use of water, the reduction of CO_2 in production as a contribution to climate protection and the promotion of sustainable innovations as a substitute for resource-intensive and environmentally harmful products.

The new sustainability strategy was further developed during the year in group-wide workshops. The first step involved the definition of and agreement on five sustainability goals for the Lenzing Group: a 50 percent reduction in sulfur emissions (carbon disulfide and hydrogen sulfide) by 2022, a 20 percent reduction in the water load (chemical oxygen demand) by 2022, the presentation of a forestry protection and reforestation project in 2018, an evaluation of the environmental performance of the Lenzing Group's key suppliers (80 percent by 2022) and the implementation of HIGG Facility Environmental Module 3.0[1] by 2019 to rank the production facilities.

The Lenzing Group is a global leader on all sustainability issues involving the fiber sector and participates, among others, in activities organized by the following multi-stakeholder initiatives and non-governmental organizations to support the development and implementation of systemic solutions: World Economic Forum, Sustainable Apparel Coalition, Textile Exchange, Canopy, Circular Fibres Initiative (Ellen MacArthur Foundation) and Science Based Targets Initiative (World Resources Institute). On an operational basis, the Lenzing Group intensified its partnerships along the value chain in 2017.

The operations at all Lenzing production facilities are based on sustainability – in the economic, ecological and social sense of the term. All fiber and pulp plants have received ISO 9001, ISO 14001 and OHSAS 18001 system certifications. The responsible procurement of wood and pulp is certified by the Forest Stewardship Council® (FSC®) and the program for the Endorsement of Forest Certification™ (PEFC™).

[1] The Higg Facilty Environmental Module of the Sustainable Apparel Coalition (SAC) is an instrument which is used to measure the environmental and social sustainability performance of global production facilities.

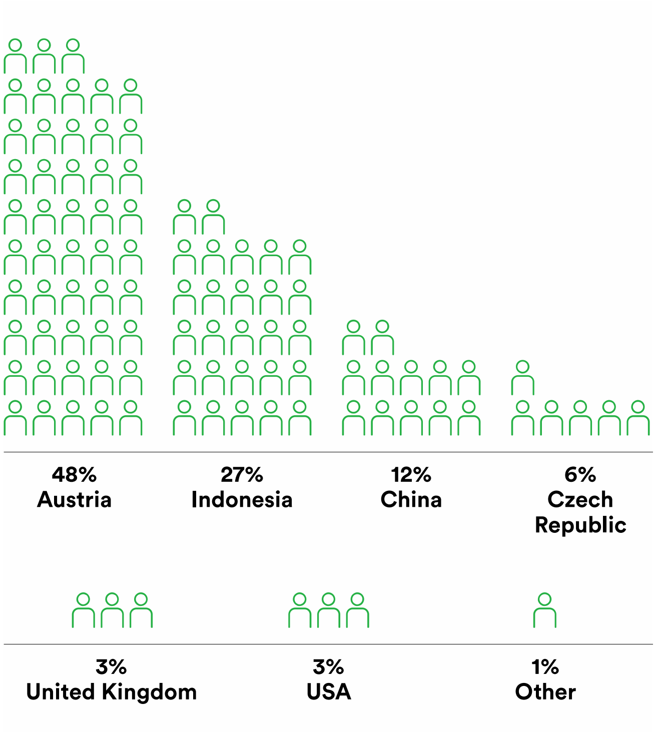
Certification status in the Lenzing Group

	ISO 9001	ISO 14001	OHSAS 18001
Lenzing (Austria)	✓	✓	✓
Heiligenkreuz (Austria)	✓	✓	✓
Grimsby (United Kingdom)	✓	✓	✓
Mobile (USA)	✓	✓	✓
Purwakarta (Indonesia)	✓	✓	✓
Nanjing (China)	✓	✓	✓
Paskov (Czech Republic)	✓	✓	✓

Employees

The Lenzing Group had a worldwide workforce of 6,488 as at December 31, 2017 (December 31, 2016: 6,218), including 173 apprentices (December 31, 2016: 175). The number of employees working at the corporate headquarters in Lenzing totaled 2,646 at the end of 2017 (December 31, 2016: 2,460), including 113 apprentices (December 31, 2016: 121).

Employees by country



Committed, motivated and highly qualified employees are the most valuable asset for a performance-driven, competitive organization. The Lenzing Group therefore supports the qualifications of its employees through a broad range of personnel development measures. Most of the educational and development programs at the corporate headquarters in Lenzing are carried out internally in the company's educational center (BZL).

Training and continuing education

The Lenzing Group started a mentoring program in 2017 to support communications between young talents and top managers. Potential managers can benefit from the experience of their mentors and, in this way, optimally prepare for the coming challenges. Conversely, these personal contacts also help the mentors to gain new insights.

February 2017 marked the start of a new cycle in the 16-month "Springboard" executive development program which was launched in 2014. It includes 29 participants from all locations and regions in the Lenzing Group. Springboard focuses on the issues of culture and change, decision-making, leadership, international communications as well as virtual and practical cooperation.

The initiative "Breakfast with the EC" has given employees an opportunity to discuss concerns and questions related to the sCore TEN strategy with members of the Executive Committee (EC), the top advisory body of the Lenzing Group, in a relaxed atmosphere since 2016.

The eLearning program "Learn@Lenzing" was also rolled out throughout the Group in 2017. It is designed to strengthen the focus on safety and support a sustainable learning process. The "Commercial Academy", which was launched in August 2016, was also introduced at the other Lenzing locations during the reporting year. Eighteen training courses were held in the regions North Asia, AMEA and Europe & Americas during the reporting year, in which roughly 140 employees from the commercial staff were able to improve their technical know-how, legal expertise and negotiation skills.

Diversity

In accordance with its sCore TEN strategy, the Lenzing Group places high value on the diversity of its employees. The 27 new colleagues who were appointed to management positions in 2017 come from 14 different nations.

Safety, Health and Environment

Global Safety, Health and Environment (Global SHE) is responsible for occupational safety, health and environment in the Lenzing Group. In 2017 measures were implemented to increase occupational safety and further develop group-wide healthcare management.

Safety

The primary goal of Global SHE is to increase employees' awareness of the importance of safety and to implement appropriate measures to minimize the risk of accidents at work. One important highlight in this respect was the group-wide "Heartbeat for Lenzing Conference" in June, where roughly 120 employees from all locations, members of the Management Board, internal and external experts and customers exchanged information and experience on safety and quality.

The start of the "Heartbeat for Safety" program in 2016 was followed by continued implementation during the reporting year. One focal point of this medium-term oriented program in 2017 was the "Safety Walks and Talks" training and discussion format. Since its beginning, roughly 750 managers have received training in 45 sessions and successful discussions have been held on the subject of safety. More than 5,600 "Safety Walks and Talks" were held by the end of 2017.

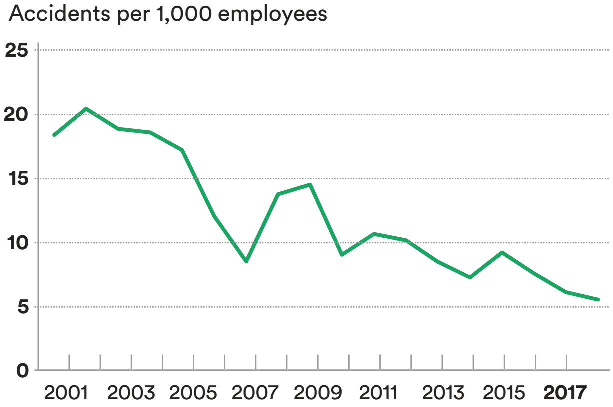
A program to audit all locations was also started in 2017. Its goal is to evaluate compliance with local legal regulations and the directives for plant operations as well as compliance with the Lenzing Group's internal guidelines. The audits will include independent local experts who are well acquainted with local circumstances and the respective languages. The results will be documented and processed accordingly.

Another central point was the standardization of existing rules to prevent fatal accidents as the result of dangerous activities. The new "Life Saving Rules" were compiled in a separate folder and explained to employees in training sessions.

Efficient safety management requires the complete reporting and documentation of all relevant events (accidents, near-accidents and observations). In connection with the continuous improvement of safety standards, it is therefore especially important to include local employees in the standardized "SHEARS" reporting platform and create an awareness for risks. A standardized IT-supported reporting system was installed throughout the Lenzing Group in 2017.

The accident rate could be maintained unchanged in 2017 despite the wide-ranging investment activity and related higher risk of injuries as well as the increased deployment of staff.

Development of the accident rate



Health

The Lenzing Group's health management system is based on a concept that is tailored to the specific health and social systems in the countries where Lenzing is active and provides a conceptual framework for targeted investments in healthcare.

The company has established industry-specific healthcare standards at all its sites, which include routine health checks for all employees and regular training in the correct handling of chemicals.

Healthy nutrition represented a special focal point of activities at the production location in Lenzing during 2017. In March, the well-known chef and nutrition expert Sarah Wiener lectured on culinary pleasures and conscious nutrition. The cooperation with local food suppliers was also intensified. The use of organic foods was increased, and all fish is MSC-certified. This focus on healthy nutrition also includes monthly expert commentaries on controversial nutrition issues, various lectures and an easily accessible health check for all team members.

At the production location in Purwakarta, Lenzing increased the emphasis on preventive measures in 2017. The medical programs offered by the company clinics covered subjects like a healthy lifestyle and dental hygiene as well as changes in eating habits through the reduction of salt and sugar and the positive effects on cholesterol levels. A voluntary blood donation program, which was very well received, was also started with the non-profit organization Red Cross in 2017.

Risk Report

Current risk environment

A detailed analysis of developments on the global fiber market in 2017 and the related risks for Lenzing AG is provided in the section General Market Environment.

The current price level, above all for standard fibers, is expected to remain under pressure because of the additional fiber capacity that will enter the market in 2018. Worldwide cotton supplies do not give reason to expect support. Lenzing therefore anticipates a greater risk of price fluctuations for standard fibers during the coming financial year. This trend is countered by the sCore TEN corporate strategy through the continuous expansion of specialty fibers.

The geopolitical situation has changed only slightly since the previous year, but forecasts for the global economy point to a positive trend in 2018. Developments like the upcoming Brexit in Europe represent an uncertainty factor which, however, will only have a limited influence on Lenzing. The possible introduction of trade tariffs, especially by China and the USA, would increase both the sales risk and the procurement risk for the Lenzing Group.

Pulp supplies are secured for 2018 based on the steady expansion of the Group's own pulp capacity and sufficient available supplies on the global market. However, there is an increasing risk of lost cost advantages through backwards integration by competitors.

The raw material prices for chemicals, above all sodium hydroxide, have risen sharply on global markets in recent months. Further price increases cannot be excluded from the current point of view.

With regard to foreign currencies, both the US dollar (minus 14 percent) and the Chinese yuan (minus 7 percent) weakened in relation to the euro during the 2017 financial year. A continuing devaluation would have a negative effect on Lenzing's outstanding currency volumes. Liquidity risk is expected to be low in 2018, despite the substantial increase in investment activity.

There were also no significant damage incidents involving operating, environmental or product liability risks with a high damage potential in 2017.

The Lenzing Group is increasing its production capacity with the expansion of lyocell capacity in Heiligenkreuz and the construction of a new lyocell plant in Mobile. These major investments are connected with significant costs and are exposed to a risk of cost overruns and completion delays.

Risk management

The Management Board of Lenzing AG, together with the heads of the reporting departments, carries out extensive coordinating and controlling operations within the framework of a comprehensive integrated internal control system that covers all locations. The timely identification, evaluation and reaction to strategic and operational risks are essential components of these management activities. This approach is based on a standardized, group-wide monthly reporting system and the ongoing monitoring of strategic and operational plans.

Lenzing has implemented a corporate risk management system for the central coordination and monitoring of risk management processes throughout the Group. This system identifies and analyzes the main risks, together with input from the operating units, and communicates the results to the Management Board and top management. Risk management also includes the proactive analysis of potential events or near-misses. Additionally, it covers the active reduction of risks and the implementation of appropriate countermeasures in cooperation with the involved departments or the purchase of external coverage on the insurance market as required.

Risk management strategy

Lenzing pursues a four-step approach to risk management:

Risk analysis (based on the COSO®[1] Framework)

The Central Risk Management Department carries out semi-annual risk assessments at all production locations and functional units. The major risks are identified and evaluated in accordance with the international COSO® standards. Only the risks not reported on the statement of financial position or the income statement are presented, whereby the financial effects of a possible damage event on Group EBITDA are included. The risks for EBITDA are simulated and a range of possible budget variances is developed.

Risk reduction

The objective is to minimize, avoid or, in certain cases, intentionally accept risks based on appropriate measures. The actions taken depend on the expected impact of the specific risk on the Group.

Responsibility

The individual risks are assigned on the basis of the existing organization. Each risk is allocated to a specific risk owner.

Risk monitoring/control

The effectiveness of the risk management system (in the following RMS) used by Lenzing AG was evaluated by KPMG Austria GmbH in accordance with Rule 83 of the Austrian Corporate Governance Code as part of a special audit. The corresponding confirmation is published on the Lenzing website under https://www.lenzing.com/en/investors/corporate-governance/evaluations-reports/.

In addition to fulfilling legal requirements, the primary objective of the group-wide risk management system is to create a greater awareness of risk and to integrate the resulting insights into everyday business operations and the Group's strategic development.

[1] Committee of Sponsoring Organizations of the Treadway Commission

Strategic market risks are evaluated on the basis of market reports and internal market analyses in regular meetings between the Sales Department and the internal Market Research Department.

Market environment risks

Market/substitution risk

As an international corporation, Lenzing is exposed to a variety of macroeconomic risks. The development of the prices and volumes for textile fibers and, to a lesser extent, also for nonwoven fibers is cyclical because it is dependent on global and regional economic conditions. Lenzing fibers compete with cotton and synthetic fibers on many submarkets. Consequently, the price trends for these products also have an influence on the revenue and sales volumes of Lenzing fibers.

Lenzing counteracts this risk by steadily increasing the share of specialty fibers in its global product portfolio. The goal is to raise the share of specialty fibers to 50 percent by 2020. High quality standards combined with added-value services in the standard fiber business are also designed to safeguard Lenzing's leading market position.

Lenzing relies on a strong international market presence, especially in Asia. This market presence is strengthened by an excellent regional customer service and support network as well as high customer-oriented product diversification. A new application and innovation center was opened in Hong Kong (China) during the 2017 financial year.

The substitution risk for wood-based cellulose fibers is considered low due to Lenzing's strong technological expertise and solid sales basis.

Sales risk

A comparatively small number of major customers are responsible for roughly one-half of Lenzing's fiber revenue. A decline in sales to these major customers or the loss of one or more major customers without an immediate replacement poses a certain risk. Lenzing counteracts this risk with its global presence and the continuous broadening of its client base and sales segments. Possible default on trade receivables is covered by strict receivables management and global credit insurance.

Innovation and competition risk

As the world's leading producer of botanic cellulose fibers and a technology leader, Lenzing is exposed to the risk of losing its position on the fiber market due to increased competition or new technologies developed by competitors. Lenzing could lose its market position, above all, if it is no longer able to offer its products at competitive prices, if its products do not comply with customer specifications or quality standards or if its customer service does not meet customer expectations.

Lenzing counteracts this risk with research and development activities that exceed the average for the wood-based cellulose fiber industry and by a high level of product innovation and steady cost optimization. The Lenzing Group – similar to other producers – is exposed to the risk that acceptable or even superior alternative products may become available and at more favorable prices than wood-based cellulose fibers.

Laws and regulations

Lenzing is confronted with different legal systems and regulations in its global markets. A change in laws or other regulations (e.g. import duties, environmental requirements etc.) as well as the stricter interpretation of existing laws could result in significant additional costs or competitive disadvantages. Lenzing has installed a Legal Management and Compliance Department which carries out consulting services and risk assessments in these areas.

Operating risks

Procurement risk (incl. pulp supplies)

Lenzing purchases large volumes of raw materials (wood, pulp, chemicals) and energy for the manufacture of its cellulose fibers. Fiber production and the related margins are exposed to risks arising from the availability and prices of these raw materials, which can fluctuate to the disadvantage of the Lenzing Group. These risks are countered through the careful selection of suppliers based on price, reliability and quality criteria as well as the creation of long-standing, stable supplier-customer partnerships, in some cases with multi-year supply agreements. Lenzing has also entered into long-term contractual relationships with several raw material suppliers and service partners (but with only a few customers). These agreements require Lenzing to purchase specified quantities of raw materials at standardized terms and conditions, which may also include price adjustment clauses. Lenzing may therefore not be able to adjust prices, purchase volumes or other contract conditions over the short-term in order to react to changes on its markets. This risk is aggravated by the fact that the major share of Group revenue is generated by short-term contract relationships with customers.

The new sCore TEN strategy includes an increased focus on backwards integration through the expansion of the Group's own cellulose production volumes.

Operating and environmental risks

The production of cellulose fibers involves a complex series of chemical and physical processes which are connected with certain environmental risks. These risks are effectively controlled through special, proactive and sustainable environmental management efforts, closed production cycles and the continuous monitoring of emissions based on state-of-the-art production technologies. The Lenzing Group has operated production facilities at several locations for decades. Therefore, risks arising from environmental damages in earlier periods cannot be completely excluded.

Although the Lenzing Group has set very high technological and safety standards for the construction, operation and maintenance of its production sites, the risk of breakdowns, disruptions and accidents cannot be completely excluded. These types of disruptions can also be caused by external factors over which Lenzing has no control. It is impossible to provide direct protection against certain natural hazards (e.g. cyclones, earthquakes, floods). Moreover, there is a risk that personal injury, material and environmental damage could result in substantial claims for damages and even criminal liability.

The Lenzing Group's production activities are concentrated at a small number of locations. Any disruption at one of these facilities would have a negative impact on a substantial part of the company's business operations.

Product liability risk

Lenzing markets and sells its products and services to customers throughout the world. These business activities can result in damages to customers through the delivery of a defective product by Lenzing or one of its subsidiaries. Lenzing is also subject to the prevailing local laws in the countries where its products are delivered and, particularly in the USA, is exposed to significant liability risk. This risk is countered by a special department which focuses exclusively on customers' problems in processing Lenzing products and on dealing with complaints. Liability damages caused by Lenzing are covered by a global liability insurance program.

Financial risks

Exchange rate risk

Its international business relationships expose the Lenzing Group to currency risks, in particular in connection with the USD, CNY and CZK. The procedures for dealing with financial risks are described in clearly-defined, written guidelines which are continually monitored by the Global Treasury Department. The goal of foreign currency management is to protect payment flows from business operations against exchange rate fluctuations. Lenzing uses forward exchange contracts for this purpose. Hedging activities as well as the correlation between the risk and the hedging instruments are systematically monitored and reported. Translation risks are generally not hedged, but monitored on a regular basis. The default risk on these derivative financial instruments is evaluated regularly and considered to be relatively low due to the good credit standing of the contractual partners.

Counterparty risk

The default risks related to primary financial instruments (originated loans, securities, receivables and cash balances with banks) are limited by depositing the Group's liquid assets with a large number of different banks. Lenzing AG has also accepted liabilities for other companies, but the risk of subsidiary liability is considered to be low because the involved companies are expected to meet their payment obligations.

The risk of changes in the market value of primary and derivative financial instruments is also classified as relatively low. Short-term financial instruments are not expected to be exposed to material fluctuations before maturity. Floating interest rates apply to 32.88 percent of the non-current liabilities held by the Lenzing Group and to 28.53 percent of the non-current liabilities held by Lenzing AG.

The Lenzing Group is not exposed to liquidity risk, specifically the risk that the obligations resulting from primary and derivative financial instruments cannot be met due to a lack of sufficient funds. Derivative financial instruments are used solely for hedging purposes, and the resulting obligations are covered by the hedged transactions. The obligations arising from primary financial instruments are covered by available liquid funds and, if necessary, by internal financing.

The cash flows resulting from financial instruments can be subject to fluctuations. These cash flow risks are generally limited to floating interest rate liabilities.

Financing risk

The Lenzing Group needs financial resources to implement its business plan and strategy. More difficult access to the financial markets could have a negative influence on the availability, conditions and/or costs of obtaining capital. Weaker demand or a decline in selling prices could also have a negative impact on business operations and, in turn, on the financial situation and earnings of the Lenzing Group. This risk is considered to be very low from the current point of view.

Tax risk

Lenzing's production facilities are subject to local tax regulations in their respective countries and are required to pay corporate income taxes as well as other taxes. Changes in tax legislation or different interpretations of prevailing regulations could lead to subsequent tax liabilities.

Compliance

Increasingly strict international codes of conduct and legal regulations are creating additional demands on Lenzing for compliance and monitoring. Insufficient controls in business processes or a lack of adequate documentation could result in violations of relevant statutory provisions. Lenzing addresses this risk through its group-wide compliance organization, the corporate code of conduct, an anti-bribery and corruption policy, and an antitrust policy.

Personnel risks

Personnel risks may arise through the fluctuation of employees in key positions as well as the recruiting of new staff at all global sites. Lenzing has established a Human Resources Department which operates internationally and coordinates personnel planning with the respective sites. It is responsible for the central management and monitoring of all personnel-related issues, including the organization of global management and training programs for potential executives.

Risks related to major projects

Lenzing is currently realizing numerous capacity expansion projects, among others the construction of a new lyocell plant in Mobile and the planning for a new plant in Thailand. These types of major projects carry an inherent risk of cost or schedule overruns. Lenzing counters these risks with strict planning and project management as well as continuous cost controls.

Report on the Key Elements of the Internal Control System (Section 243a Para. 2 of the Austrian Commercial Code)

The internal control system implemented by the Lenzing Group is designed to safeguard the reliability of financial reporting, ensure compliance with legal regulations and corporate guidelines and present the risks not reported on the consolidated statement of financial position or the consolidated income statement.

The Lenzing Group's organizational structure and processes form the main basis for the control environment and the internal control system. The organizational structure includes the assignment of specific authority and responsibilities to the various management and hierarchy levels at the Austrian sites and in all international subsidiaries. Key group functions are centralized in corporate centers which reflect Lenzing's global market presence as well as its decentralized business and site structure. The respective management is responsible for coordinating and monitoring business operations at the national level. Lenzing's process organization is characterized by a well-developed and comprehensive set of guidelines which provide an effective foundation for a strong control environment and control system. Important group-wide approval processes and responsibilities are defined in the Lenzing Group Mandates. The management of each business area or department is responsible for monitoring compliance with the respective regulations and controls.

Financial reporting

The Global Accounting & Tax Management Department has central responsibility for financial reporting, the internal control system related to accounting and tax issues in the Lenzing Group. The goal of the control system related to accounting is to ensure the uniform application of legal standards, generally accepted accounting principles and the accounting regulations specified in the Austrian Commercial Code. This system also covers the consolidated accounting process and thereby guarantees compliance with the rules defined by International Financial Reporting Standards (IFRS) and internal accounting guidelines, in particular the group accounting manual and schedules. The internal control system related to accounting is designed to safeguard the timely, uniform and accurate recording of all business processes and transactions. In this way, it supports the preparation of reliable data and reports on the financial position and financial performance of the Lenzing Group.

The subsidiaries included in the consolidated financial statements prepare financial statements in accordance with both local laws and IFRS standards at the company level in a timely manner. They are responsible for the decentralized implementation of existing rules and are supported and monitored in these activities by the Global Accounting & Tax Management Department. The Audit Committee of the Supervisory Board is integrated in the control system related to accounting. In addition, the annual financial statements are audited by external certified public accountants and the half-year financial statements are reviewed on a voluntary basis. The Global Treasury Department, and above all the payments unit, is classified as a highly sensitive area because of its direct access to the Group's assets. The accompanying increased need for security is reflected in comprehensive regulations and instructions for all relevant processes. These clear guidelines require the strict application of the four-eyes principle for the settlement of transactions as well as regular reporting. The Internal Audit Department is responsible for monitoring the application of and compliance with controls in business operations.

Compliance with legal regulations and internal guidelines

The Legal, IP & Compliance Department of Lenzing AG is responsible for legal management. This centralized function handles all legal matters in the Lenzing Group, in particular issues which do not involve standard business processes. This department is also responsible for the Compliance Management System (CMS). In this function, it oversees group-wide compliance with legal regulations and internal guidelines as well as the prevention of legal violations and improper behavior. The Legal, IP & Compliance Department reports directly to the Chief Executive Officer. The CMS is responsible for the following: the identification of compliance-relevant risks and the implementation of risk-minimizing measures, the development and monitoring of compliance-relevant guidelines, employee training on compliance-relevant issues, the provision of assistance on compliance issues, the handling and correction of cases involving improper behavior and regular reporting to the Management Board and Supervisory Board or Audit Committee.

Lenzing AG has stated its intention to comply with the rules defined by the Austrian Code of Corporate Governance (ACCG) and prepares a Corporate Governance Report which is published as part of the Annual Report. The Corporate Governance Report requires the participation of the Supervisory Board, which delegates the responsibility for monitoring compliance with the related obligations to the Audit Committee. The Internal Audit Department is independent of all other organizational units and business processes and reports directly to the Chief Financial Officer. Internal Audit evaluates whether the Group's resources are used legally, economically, efficiently and correctly in the interest of sustainable development. The activities of Internal Audit are based on the international standards published by the Institute of Internal Auditors (IIA). Regular reporting to the Management Board and the Audit Committee ensure the proper functioning of the internal control system.

Depiction of risks outside the statement of financial position and income statement

The Risk Management Department is responsible for the depiction of risks which are not reported on the statement of financial position or income statement and prepares a semi-annual risk report for this purpose. The major risks are also discussed in the annual report. The risk report is based on the international COSO® standards (Committee of Sponsoring Organizations of the Treadway Commission).

Shareholder structure and information on capital

Share capital and shareholder structure

The share capital of Lenzing AG totaled EUR 27,574,071.43 as of December 31, 2017 and is divided into 26,550,000 shares. The B&C Group reduced its investment in voting rights from 62.6 percent to 50.0 percent plus two shares in May 2017. However, it remains the majority shareholder and views itself as the long-term oriented Austrian core shareholder of Lenzing AG. Oberbank AG, a leading Austrian regional bank, holds 3.97 percent of the shares. As a result of the above transaction, the free float increased from 33.2 percent to 46.03 percent in 2017. The free float in Lenzing shares is held by Austrian and international investors. The Lenzing Group holds no treasury shares.

Position of shareholders

Each no-par-value share grants the shareholder one vote at the Lenzing AG Annual General Meeting. Unless provided otherwise by mandatory provisions of the Austrian Stock Corporation Act, the Annual General Meeting passes resolutions by a simple majority of the votes cast and – if a majority of the share capital is required – by a simple majority of the share capital represented at the Annual General Meeting.

Lenzing AG has no shares with special control rights. A resolution passed by the Annual General Meeting on April 20, 2016 authorized the Management Board, subject to the consent of the Supervisory Board, to repurchase the company's bearer shares over the stock market at an amount equaling up to 10 percent of share capital. This approval is valid for 30 months beginning on April 20, 2016. Trading in treasury shares is excluded as an objective of the purchase.

The Management Board was also authorized to reduce share capital, if necessary, through the withdrawal of treasury shares without a further resolution by the Annual General Meeting. The Supervisory Board was authorized to adopt any amendments to the articles of association resulting from the withdrawal of shares.

The resolution passed by the Annual General Meeting on April 22, 2015 to point 8 of the agenda ("new authorized capital") remains in effect. It authorized the Management Board, subject to the approval of the Supervisory Board to increase share capital by up to EUR 13,778,412 through the issue of up to 13,274,000 no-par-value shares ("authorized capital") – also in several tranches – in exchange for cash and/or contributions in kind. The authorization is valid for five years beginning on the date the resolution is recorded in the commercial register (recording date: May 26, 2016).

The Annual General Meeting on April 22, 2015 also authorized the Management Board, subject to the approval of the Supervisory Board, to issue convertible bonds by April 22, 2020 – also in several tranches – which provide or allow for subscription or conversion rights or mandatory subscription or conversion into a maximum of 13,274,000 shares ("contingent capital"). The subscription or conversion rights/obligations may be serviced by contingent capital and/or treasury shares.

The Management Board did not make use of the existing authorizations during the 2017 financial year.

Detailed information on the Annual General Meeting, proposals for resolutions and the results of voting are published on the website of Lenzing AG: https://www.lenzing.com/en/investors/shareholders-meeting/2017/.

The 74th Annual General Meeting will be held on April 12, 2018 in the "Kulturzentrum Lenzing", 4860 Lenzing.

Other disclosures in accordance with Section 243a of the Austrian Commercial Code

There are no provisions other than those stipulated by law which cover the appointment or dismissal of members of the Management Board or Supervisory Board. The company has not entered into any significant agreements that would take effect, change or expire in the event of a change in control as the result of a takeover bid. There are no compensation agreements between the company and the members of the Management Board and Supervisory Board or with employees that would take effect in the event of a public takeover offer.

Outlook

The International Monetary Fund expects a further acceleration in global economic growth to 3.7 percent in 2018. However, growing protectionist tendencies in the political arena represent a source of uncertainty. Export-oriented companies in the Eurozone will also be faced with an additional challenge from the currency environment.

Developments on the fiber markets should also be positive in 2018, but with continuing volatility. Cotton prices are expected to remain at the current level and inventory levels should be constant despite the increase in production. Polyester fiber prices increased in recent quarters following years of historic lows.

The wood-based cellulose fiber segment, which is relevant for Lenzing, should see further strong demand. After years of moderate capacity expansion in the viscose sector, significant additional volumes can be expected to enter the market in 2018. The Lenzing Group is very well positioned in this market environment with its sCore TEN corporate strategy and will continue the consistent focus on growth with specialty fibers.

The Lenzing Group sees a number of, in part contradictory, factors which limit the visibility over fiber prices in 2018. The prices for several key raw materials, e.g. caustic soda, remain at a very high level and their further development is difficult to estimate. These general conditions are expected to form the basis for a challenging market environment in the standard viscose fiber business during the coming quarters; coupled with anticipated negative exchange rate fluctuations, the Lenzing Group expects its results for 2018 to be lower than the outstanding results in the last two years.

Lenzing, March 6, 2018
Lenzing Aktiengesellschaft

The Management Board

Stefan Doboczky
Chief Executive Officer
Chairman of the
Management Board

Robert van de Kerkhof
Chief Commercial Officer
Member of the
Management Board

Thomas Obendrauf
Chief Financial Officer
Member of the
Management Board

Heiko Arnold
Chief Technology Officer
Member of the
Management Board

Appendix: Notes on the Financial Performance Indicators of the Lenzing Group

The key financial indicators for the Lenzing Group are described in detail in the following section. These indicators are derived primarily from the IFRS consolidated financial statements of the Lenzing Group and are found in this annual report, above all, in the sections "Selected Indicators of the Lenzing Group" and "Five-Year Overview of the Lenzing Group". The definitions of the indicators are summarized in the glossary to the annual report. The Management Board believes these financial indicators provide useful information on the financial position of the Lenzing Group because they are used internally and are also considered important by external stakeholders (in particular investors, banks and analysts).

EBITDA, EBITDA margin, EBIT and EBIT margin

EBITDA and EBIT are viewed by the Lenzing Group as the benchmarks for the strength of operating earnings and profitability (performance) before and after depreciation and amortization. Due to their significance - also for external stakeholders - these indicators are presented on the consolidated income statement and, in order to provide a comparison of margins, in relation to group revenue (as the EBITDA margin and EBIT margin).

EUR mn	2017	2016	2015	2014	2013
EBITDA (earnings before interest, tax, depreciation and amortization)	502.5	428.3	290.1	240.3	225.4
/ Revenue	2,259.4	2,134.1	1,976.8	1,864.2	1,908.9
EBITDA margin	**22.2%**	**20.1%**	**14.7%**	**12.9%**	**11.8%**

EUR mn	2017	2016	2015	2014	2013
EBIT (earnings before interest and tax)	371.0	296.3	151.1	21.9	86.4
/ Revenue	2,259.4	2,134.1	1,976.8	1,864.2	1,908.9
EBIT margin	**16.4%**	**13.9%**	**7.6%**	**1.2%**	**4.5%**

EBT

EBT measures the pre-tax earnings strength of the Lenzing Group and is shown on the consolidated income statement.

Gross cash flow

In the Lenzing Group, gross cash flow serves as the benchmark for the company's ability to convert gains/losses from operating activities (before changes in working capital) into cash and cash equivalents. This indicator is presented in the consolidated statement of cash flows.

Free cash flow

The free cash flow generated by the Lenzing Group shows the cash flow generated by operating activities - after the deduction of investments - which is available to service the providers of debt and equity. This indicator is also important for external stakeholders.

EUR mn	2017	2016	2015	2014	2013
Cash flow from operating activities	271.1	473.4	215.6	218.8	82.3
- Cash flow from investing activities	(218.6)	(103.6)	(56.5)	(102.8)	(152.2)
- Net inflow from the sale and disposal of subsidiaries and other business areas	(3.1)	(1.4)	(13.4)	0.0	(61.7)
+ Acquisition of financial assets and investments accounted for using the equity method	6.5	3.5	4.9	2.3	8.3
- Proceeds from the sale/repayment of financial assets	(23.4)	(5.6)	(5.6)	(3.5)	(40.7)
Free cash flow	**32.6**	**366.3**	**145.0**	**114.8**	**(163.9)**

CAPEX

CAPEX shows the expenditures for intangible assets and property, plant and equipment. It is presented in the consolidated statement of cash flows.

Liquid assets

Liquid assets show the Lenzing Group's ability to meet due payment obligations immediately with available funds. This indicator is also used to calculate other financial ratios (e.g. net financial debt; see below).

EUR mn as at 31/12	2017	2016	2015	2014	2013
Cash and cash equivalents	306.5	559.6	347.3	271.8	287.9
+ Liquid bills of exchange (in trade receivables)	9.4	10.8	8.1	8.5	8.1
Liquid assets	**315.8**	**570.4**	**355.3**	**280.3**	**296.0**

Trading working capital and trading working capital to annualized group revenue

Trading working capital in the Lenzing Group is a measure for potential liquidity and capital efficiency. It is used to compare capital turnover by relating it to group revenue.

EUR mn as at 31/12	2017	2016	2015	2014	2013
Inventories	340.1	329.4	338.5	344.1	311.5
+ Trade receivables	292.8	277.4	258.9	232.8	258.8
- Trade payables	(218.4)	(227.2)	(150.0)	(181.1)	(176.6)
Trading working capital	**414.4**	**379.6**	**447.4**	**395.7**	**393.7**

EUR mn	2017	2016	2015	2014	2013
Latest reported quarterly group revenue (= 4th quarter respectively)	532.8	555.7	518.0	506.5	461.9
x 4 (= annualized group revenue)	2,131.1	2,222.9	2,071.8	2,026.0	1,847.5
Trading working capital to annualized group revenue	**19.4%**	**17.1%**	**21.6%**	**19.5%**	**21.3%**

Adjusted equity and adjusted equity ratio

Adjusted equity shows the Lenzing Group's independence from the providers of debt and its ability to raise new capital (financial strength). This figure includes equity as defined by IFRS as well as government grants less the proportional share of deferred taxes. Adjusted equity is used to compare equity and debt with total assets. This (and/or a similar indicator) is occasionally used as a financial covenant by lenders.

EUR mn as at 31/12	2017	2016	2015 [1]	2014 [1]	2013
Equity	1,507.9	1,368.5	1,198.9	1,034.5	1,089.5
+ Non-current government grants	18.3	17.0	17.8	22.0	23.0
+ Current government grants	7.9	11.9	8.0	4.6	3.0
- Proportional share of deferred taxes on government grants	(6.4)	(7.0)	(6.1)	(6.1)	(5.9)
Adjusted equity	**1,527.7**	**1,390.5**	**1,218.6**	**1,054.9**	**1,109.6**
/ Total assets	2,497.3	2,625.3	2,410.6	2,359.2	2,439.9
Adjusted equity ratio	**61.2%**	**53.0%**	**50.6%**	**44.7%**	**45.5%**

1) Error correction in accordance with IAS 8 (see note 2).

Net financial debt, net financial debt/EBITDA, net gearing and net debt

Net financial debt is used by the Lenzing Group as the benchmark for its financial indebtedness and capital structure. It is also an important indicator for external stakeholders. The relation of this indicator to EBITDA shows the number of periods in which the same level of EBITDA must be generated to cover net financial debt. The ratio of net financial debt to adjusted equity (net gearing) illustrates the relation of net debt to adjusted equity. This (and/or a similar indicator) is occasionally used as a financial covenant by lenders. Net debt in the Lenzing Group measures the level of financial debt, including the provisions for severance payments and pensions.

EUR mn as at 31/12	2017	2016	2015	2014	2013
Current financial liabilities	127.3	249.2	172.3	192.7	191.1
+ Non-current financial liabilities	255.3	328.3	510.9	537.0	609.6
- Liquid assets	(315.8)	(570.4)	(355.3)	(280.3)	(296.0)
Net financial debt	**66.8**	**7.2**	**327.9**	**449.5**	**504.7**
/ Earnings before interest, tax, depreciation and amortization (EBITDA)	502.5	428.3	290.1	240.3	225.4
Net financial debt / EBITDA	**0.1**	**0.0**	**1.1**	**1.9**	**2.2**

EUR mn as at 31/12	2017	2016	2015 [1]	2014 [1]	2013
Net financial debt	66.8	7.2	327.9	449.5	504.7
/ Adjusted equity	1,527.7	1,390.5	1,218.6	1,054.9	1,109.6
Net gearing	**4.4%**	**0.5%**	**26.9%**	**42.6%**	**45.5%**

1) Error correction in accordance with IAS 8 (see note 2).

EUR mn as at 31/12	2017	2016	2015	2014	2013
Net financial debt	66.8	7.2	327.9	449.5	504.7
+ Provisions for severance payments and pensions	105.4	108.6	96.5	102.9	77.4
Net debt	**172.2**	**115.8**	**424.5**	**552.5**	**582.0**

Return on capital (ROE, ROI and ROCE)

Return on capital employed (ROCE) is the Lenzing Group's benchmark for the yield (return) on the capital employed in the operating business. It is also an important indicator for external stakeholders. Return on capital (ROE) and return on investment (ROI) are profitability indicators which measure the earnings strength of the Lenzing Group.

EUR mn	2017	2016	2015 [1]	2014 [1]	2013
Earnings before interest and tax (EBT)	371.0	296.3	151.1	21.9	86.4
- Proportional share of current income tax expense (on EBIT)	(79.2)	(64.1)	(23.8)	(23.4)	(26.3)
Earnings before interest and tax (EBIT) less proportional share of current income tax expense (NOPAT)	**291.8**	**232.2**	**127.4**	**(1.5)**	**60.1**
/ Average capital employed	1,571.8	1,541.0	1,578.7	1,596.1	1,605.1
ROCE (return on capital employed)	**18.6%**	**15.1%**	**8.1%**	**(0.1)%**	**3.7%**
Proportional share of current income tax expense (on EBIT)	(79.2)	(64.1)	(23.8)	(23.4)	(26.3)
Proportional share of other current tax expense	2.5	3.0	3.4	2.7	5.6
Current income tax expense	**(76.7)**	**(61.1)**	**(20.3)**	**(20.7)**	**(20.7)**

1) Error correction in accordance with IAS 8 (see note 2).

EUR mn as at 31/12	2017	2016	2015 [1]	2014 [1]	2013
Total assets	2,497.3	2,625.3	2,410.6	2,359.2	2,439.9
- Trade payables	(218.4)	(227.2)	(150.0)	(181.1)	(176.6)
- Non-current puttable non-controlling interests	(18.0)	(13.0)	(8.3)	(7.6)	(19.5)
- Other non-current liabilities	(3.8)	(3.7)	(3.1)	(7.6)	(2.3)
- Other current liabilities	(38.5)	(92.5)	(85.3)	(90.5)	(35.5)
- Current tax liabilities	(21.6)	(25.7)	(10.6)	(25.2)	(14.8)
- Deferred tax liabilities	(52.7)	(52.9)	(52.9)	(44.8)	(41.8)
- Proportional share of deferred taxes on government grants	(6.4)	(7.0)	(6.1)	(6.1)	(5.9)
- Current provisions	(95.7)	(97.2)	(69.9)	(81.4)	(126.4)
- Non-current provisions	(131.7)	(138.1)	(122.7)	(130.0)	(106.8)
+ Provisions for severance payments and pensions (post-employment benefits)	105.4	108.6	96.5	102.9	77.4
- Cash and cash equivalents	(306.5)	(559.6)	(347.3)	(271.8)	(287.9)
- Investments accounted for using the equity method	(8.4)	(12.7)	(25.6)	(38.0)	(39.1)
- Financial assets	(36.4)	(25.1)	(22.8)	(23.2)	(23.2)
As at 31/12	**1,664.4**	**1,479.2**	**1,602.7**	**1,554.7**	**1,637.5**
As at 01/01	**1,479.2**	**1,602.7**	**1,554.7**	**1,637.5**	**1,572.7**
Average capital employed	**1,571.8**	**1,541.0**	**1,578.7**	**1,596.1**	**1,605.1**

1) Error correction in accordance with IAS 8 (see note 2).

EUR mn as at 31/12	2017	2016	2015 [1]	2014 [1]	2013
Adjusted equity 31/12	1,527.7	1,390.5	1,218.6	1,054.9	1,109.6
Adjusted equity 01/01	1,390.5	1,218.6	1,054.9	1,109.6	1,153.1
Average adjusted equity	**1,459.1**	**1,304.5**	**1,136.8**	**1,082.3**	**1,131.4**

1) Error correction in accordance with IAS 8 (see note 2).

EUR mn	2017	2016	2015 [1]	2014 [1]	2013
Earnings before tax (EBT)	357.4	294.6	147.4	12.0	68.1
/ Average adjusted equity	1,459.1	1,304.5	1,136.8	1,082.3	1,131.4
ROE (return on equity)	**24.5%**	**22.6%**	**13.0%**	**1.1%**	**6.0%**

1) Error correction in accordance with IAS 8 (see note 2).

EUR mn as at 31/12	2017	2016	2015 [1]	2014 [1]	2013
Total assets 31/12	2,497.3	2,625.3	2,410.6	2,359.2	2,439.9
Total assets 01/01	2,625.3	2,410.6	2,359.2	2,439.9	2,632.7
Average total assets	**2,561.3**	**2,518.0**	**2,384.9**	**2,399.5**	**2,536.3**

1) Error correction in accordance with IAS 8 (see note 2).

EUR mn	2017	2016	2015 [1]	2014 [1]	2013
EBIT (earnings before interest and tax)	371.0	296.3	151.1	21.9	86.4
/ Average total assets	2,561.3	2,518.0	2,384.9	2,399.5	2,536.3
ROI (return on investment)	**14.5%**	**11.8%**	**6.3%**	**0.9%**	**3.4%**

1) Error correction in accordance with IAS 8 (see note 2).

Corporate Report 2017

Corporate Governance Report 2017

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 2018) is available in the Internet under 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 (https://www.lenzing.com/en/investors/corporate-governance/evaluations-reports/).

The Corporate Bodies of Lenzing AG

The division of responsibilities among the members of Lenzing's Management Board during the 2017 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 (extended to December 31, 2022 as of December 13, 2017)
  Responsibilities: Regional Area Europe and Americas, Regional Area AMEA, Regional Area North Asia, Global Pulp & Wood, Global HR, Global R&D, Corporate Strategy & M&A, Legal IP & Compliance, Corporate Communications & Investor Relations
  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
  Responsibilities: Global Business Management Textiles and Nonwovens, Corporate Sustainability, Global Brand Management, Global Supply Chain, Commercial Innovation, Business Management New Business Areas, Emerging Business Areas Medical & Beauty
  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.
- **Heiko Arnold** (born 1966)
  Member of the Management Board, Chief Technical Officer
  First appointed: May 1, 2017
  Current term of office ends: April 30, 2020
  Responsibilities: Technology, Global Engineering, Global SHE, Global Quality Management & Technical Customer Service, Enterprise Excellence, Special Projects, Lenzing Technik
  Supervisory Board functions in other companies: none
  Management and monitoring functions in major subsidiaries: Lenzing (Nanjing) Fibers Co., Ltd.

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)
  First appointed: April 28, 2014: Chairman since: April 22, 2015
  Current term of office ends at the Annual General Meeting which will pass resolutions on the 2020[1] financial year.
  Supervisory Board functions in other companies:
  AMAG Austria Metall AG, VA Intertrading Aktiengesellschaft (Chairman), B&C Industrieholding GmbH, B&C LAG Holding 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.

1) Hanno M. Bastlein will resign from the Supervisory Board at the end of the Annual General Meeting on April 12, 2018.

Supervisory Board functions in other companies: Mondi AG (Chairman), Semperit Aktiengesellschaft Holding (Chairman), Constantia Industries AG (Deputy 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 2020[2] 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), OeKB CSD GmbH (Deputy Chairman), „Österreichischer Exportfonds" GmbH (Chairman), since April 21, 2017: Acredia Versicherung AG, since April 5, 2017: OeKB EH Beteiligungs- und Management AG
- **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[3] 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
- **Astrid Skala-Kuhmann** (born 1953)
  First appointed: April 19, 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, B&C Industrieholding GmbH, B&C LAG Holding GmbH

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

2) Felix Strohbichler will resign from the Supervisory Board at the end of the Annual General Meeting on April 12, 2018.
3) Josef Krenner will resign from the Supervisory Board at the end of the Annual General Meeting on April 12, 2018.

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 ACGC.

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 and Franz Gasselsberger declared 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 during the 2017 financial year.

Working procedures of the Supervisory Board

In order to fulfil its responsibility to monitor the work of the Management Board, the Supervisory Board of Lenzing AG holds meetings at least once each quarter. 5 Supervisory Board meetings were held during the reporting year (C-Rule 36 of the ACCG).

The Supervisory Board of Lenzing AG had 5 committees in 2017 (C-Rules 34 and 39 of the ACCG):

Audit Committee

The Audit Committee carries out the responsibilities defined by Section 92 Para. 4a of the Austrian Stock Corporation Act. Accordingly, it is responsible, above all, for monitoring the accounting process and making recommendations or suggestions to ensure its reliability. This committee also oversees the effectiveness of the internal control system, internal audit and risk management. It supervises the audit of the annual and consolidated financial statements, examines and monitors the independence of the auditor and approves and controls non-audit services. The Audit Committee also examines the annual financial statements and prepares their approval by the full Supervisory Board, evaluates the Management Board's proposal for the distribution of profits, the Management Report and the Corporate Governance Report. The Chairman of the Audit Committee defines the reciprocal communication between the auditor and the Audit Committee (C-Rule 81 a of the ACCG). The committee is required to report to the Supervisory Board on its activities. The Audit Committee met 3 times in 2017, whereby the meetings focused primarily on the effectiveness of the internal control and risk management systems, compliance, the implementation of the internal audit schedule and related measures and focal points.

Members: Patrick Prügger (Chairman, financial expert), Hanno M. Bästlein, Felix Strohbichler, Johann Schernberger, Georg Liftinger

Nomination Committee

The Supervisory Board has 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. The committee's activities in 2017 concentrated on succession planning and personnel development as well as preparations for the reappointment of Stefan Doboczky. Recommendations were also made to the Annual General Meeting for appointments to the Supervisory Board. The Nomination Committee met twice in 2017.

Members: Hanno M. Bästlein (Chairman), Felix Strohbichler (resigned as of September 27, 2017), Veit Sorger, Patrick Prügger (as of September 27, 2017), Astrid Skala-Kuhmann, Johann Schernberger, Georg Liftinger

Remuneration Committee

The Supervisory Board has established a Remuneration Committee. It 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 4 meetings held by the Remuneration Committee in 2017 focused, in particular, on evaluating the performance of the Management Board and the targets for 2017 as well as general remuneration issues relating to the Management Board. The committee also negotiated, approved and finalized the employment contract with Stefan Doboczky on behalf of Lenzing AG.

Members: Hanno M. Bästlein (Chairman), Felix Strohbichler (resigned as of September 27, 2017), Veit Sorger, Patrick Prügger (as of September 27, 2017)

Strategy Committee

The Supervisory Board has established a Strategy Committee. It is responsible for reviewing the strategic positioning of the company and monitoring the implementation of the corporate strategy. In 2017 the Management Board discussed strategic options for the expansion of cellulose and fiber production capacity, issues related to Lenzing's market positioning and the further development of the sCore TEN strategy with the Strategy Committee. 3 meetings were held in 2017.

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

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 did not meet during the reporting year, but resolutions were passed on urgent business transactions.

Members: Hanno M. Bästlein (Chairman), Felix Strohbichler (resigned as of September 27, 2017), Patrick Prügger (as of September 27, 2017), 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 2017 the Supervisory Board carried out a self-evaluation as required by C-Rule 36 of the ACCG with the support of an external consultant. The work of the Supervisory Board was evaluated on the basis of the following: the minutes and documents for the meetings of the Supervisory Board, the Strategy Committee and the Audit Committee, the rules of procedure for the Management Board and Supervisory Board, the company's articles of association, the ACGC and legal regulations as well as interviews with all members of the Management and Supervisory Boards. Recommendations for potential improvements were then developed. The results showed that the Supervisory Board operates at a high professional level and in agreement with the major principles of good corporate governance. Based on the results and the discussions by the Supervisory Board, a catalogue of measures was compiled to improve the efficiency of the Supervisory Board's work.

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 2017 comprised a fixed component and a current 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 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 for all members of the Management Board is an increase in the value of the Lenzing Group (also including EBITDA and net debt), computed according to an agreed formula, over a period of several years. The bonus payments are dependent on the attainment of a minimum increase in value and have an upper limit. Payment is made in cash. In connection with the re-appointment of Stefan Doboczky for the period from June 1, 2018 to December 31, 2022 ("new contract"), the agreed partial payment in the form of shares based on the employment contract for the period from June 1, 2015 to May 31, 2018 ("old contract") was converted to full cash payment. The payment will be made for Thomas Obendrauf in 2019 and for Robert van de Kerkhof and Heiko Arnold in 2020. The long-term bonus for Stefan Doboczky under the old contract will be paid equally in 2018 and 2019, unless he resigns before that time. The long-term bonus under the new contract will be paid 50 percent in 2023 and 25 percent each in 2024 and 2025, unless he resigns by December 31 of the respective previous year. If an offer by the company to extend the employment contract is rejected after the end of the current contract term, the existing bonus claim will be reduced accordingly.
- The maximum bonus of 595 percent for Stefan Doboczky, 185 percent for Robert van de Kerkhof, 191 percent for Thomas Obendrauf and 55 percent for Heiko Arnold is based on the maximum current variable remuneration component plus the proportional share of the maximum long-term bonus in relation to the current fixed component. The maximum bonuses for Stefan Doboczky, Robert van de Kerkhof and Thomas Obendrauf include a special bonus approved in 2017 for the extraordinary success registered by the Management Board in the implementation of the sCore TEN strategy. 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 132 thousand in 2017 (2016: EUR 115 thousand). Of this total, EUR 66 thousand are attributable to Stefan Doboczky, EUR 32 thousand to Robert van de Kerkhof, EUR 21 thousand to Thomas Obendrauf and EUR 13 thousand to Heiko Arnold.

- 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 5,131 thousand in 2017 (2016: EUR 2,837 thousand) represent short-term benefits and do not include any payments related to the termination of employment contracts.

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

Current remuneration for the active members of the Management Board of Lenzing AG (expensed): EUR '000

	Stefan Doboczky		Robert van de Kerkhof		Thomas Obendrauf[1]	
	2017	2016	2017	2016	2017	2016
Fixed current remuneration	643	651	437	437	397	347
Variable current remuneration	1,732	783	654	392	760	227
Total	**2,374**	**1,434**	**1,091**	**829**	**1,157**	**574**

1) Member of the Management Board since March 1, 2016

Current remuneration for the active members of the Management Board of Lenzing AG (expensed): EUR '000

	Heiko Arnold[2]		Total	
	2017	2016	2017	2016
Fixed current remuneration	328	0	1,805	1,435
Variable current remuneration	181	0	3,326	1,402
Total	**509**	**0**	**5,131**	**2,837**

2) Member of the Management Board since May 1, 2017

The expenses recognized for entitlements arising from long-term bonus models (other non-current employee benefits and share-based payments) rose by EUR 2,244 thousand in 2017 (2016: increase of EUR 1,116 thousand). Post-employment benefits of EUR 216 thousand (2016: EUR 143 thousand) were also granted to the active members of the Management Board for company pensions and termination payments. The remuneration paid for former members of the Management Board of Lenzing AG or their surviving dependents amounted to EUR 1,004 in 2017 (2016: EUR 987 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 2016 financial year, which was approved by the Annual General Meeting of Lenzing AG on April 25, 2017, is as follows:

a. EUR 80,000 for the Chairman of the Supervisory Board
b. EUR 45,000 for the Deputy Chairman of the Supervisory Board
c. EUR 30,000 for each other member of the Supervisory Board
d. EUR 40,000 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
e. EUR 25,000 for the Chairman of the Nomination Committee, the Remuneration Committee and the excelLENZ Committee
f. EUR 15,000 for each member of the Audit Committee and the Strategy Committee
g. EUR 10.000 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 1,500 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 689,083), which was paid out in 2017:

Hanno M. Bästlein	EUR	200,500
Veit Sorger	EUR	91,500
Felix Strohbichler	EUR	110,500
Helmut Bernkopf	EUR	34,500
Josef Krenner	EUR	36,000
Franz Gasselsberger	EUR	36,000
Patrick Prügger	EUR	97,500
Andreas Schmidradner (resigned as of March 1, 2016)	EUR	11,833
Astrid Skala-Kuhmann	EUR	65,500
Georg Liftinger	EUR	1,350
Helmut Kirchmair	EUR	1,200
Johann Schernberger	EUR	1,500
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 staff department “Group Compliance“ issued a revised version of the corporate Code of Business Conduct in the working languages of the Lenzing Group in January 2017. More than 400 employees at the locations in Lenzing, Mobile, Nanjing and Purwakarta have received training up to the present time on the importance of compliance and ethical actions for the Lenzing Group and for each team member.

The Whistleblowing Directive was rolled out worldwide in August 2017 in the working languages of the Lenzing Group. “Tell us“, the Lenzing Group‘s whistleblowing system, has also been in operation since August 2017. This system can be used to report rule violations directly and anonymously to the Group Compliance Officer.

The Whistleblowing Directive, the related Investigation Directive and the whistleblowing system have been implemented by all subsidiaries.

The directive to protect sensitive and strictly confidential information, which was issued in late fall 2016, was evaluated by an external consultant as part of an audit in July 2017. The completion of the revised guideline and the group-wide roll-out are planned for the second quarter of 2018.

In 2017 roughly 200 employees at the location in Lenzing received training on the directive to protect sensitive and strictly confidential information.

So-called microlearning units were developed for the directives on antitrust law and the prevention of bribery and corruption which were issued in 2015. They will become part of Lenzing’s e-learning platform “Learn@Lenzing“.

In preparation for the application of the General Data Protection Regulation in May 2018, a procedure index for the Lenzing Group’s European locations will be finalized shortly. It initially covers all IT applications that process personal data and have been reported to the Austrian Data Processing Register. A group-wide data protection guideline is currently in preparation and is scheduled for completion and roll-out by May 2018.

In order to prevent cybercrime, Lenzing has implemented a four-eyes principle worldwide for the release of invoices, bank transfers and orders. Training courses were also held at the locations in Lenzing, Nanjing and Shanghai. A cybercrime task force has been installed to provide employees throughout the Group with regularly information on the dangers of phishing/social engineering emails and the correct way to deal with social hack attacks.

SHE Legal Compliance Audits are carried out at all locations in the Lenzing Group.

A project to standardize the group-wide Compliance Management System (CMS) was started together with an external partner in September 2017.

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 these purchase and sales is provided on the company’s website.

Risk management and Internal Audit

The effectiveness of Lenzing’s risk management system in 2017 was evaluated by the auditor, KPMG Austria 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 reports regularly on current risks at the Audit Committee 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 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 2017. This evaluation concluded that the statement of compliance with the Austrian Code of Corporate Governance (January 2018 version) issued by Lenzing Aktiengesellschaft 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.

Diversity concept

Respect, diversity and inclusion represent integral and indispensable components of the corporate culture of Lenzing Aktiengesellschaft and are reflected in appointments to all functions. Recommendations to the Annual General Meeting for elections to the Supervisory Board and the appointment of members to the Management Board are designed to achieve a technical and diversity-related balance because this makes an important contribution to the professionalism and effectiveness of the work performed by these two corporate bodies. In addition to technical and personal qualifications, aspects such as age structure, origin, gender, education and experience are also key criteria. A diversity concept for the composition of the Supervisory Board and the Management Board was approved by the Nomination Committee on February 19, 2018.

Lenzing, March 6, 2018
Lenzing Aktiengesellschaft

The Management Board

Stefan Doboczky
Chief Executive Officer
Chairman of the Management Board

Robert van de Kerkhof
Chief Commercial Officer
Member of the Management Board

Thomas Obendrauf
Chief Financial Officer
Member of the Management Board

Heiko Arnold
Chief Technology Officer
Member of the Management Board

Consolidated Financial Statements 2017

Contents

Consolidated Income Statement

for the period from January 1 to December 31, 2017

EUR '000

	Note	2017	2016
Revenue	(6)	2,259,398	2,134,075
Change in inventories of finished goods and work in progress		16,776	6,439
Own work capitalized		46,062	21,816
Other operating income	(7)	49,938	45,547
Cost of material and other purchased services	(8)	(1,257,960)	(1,223,781)
Personnel expenses	(9)	(349,371)	(319,233)
Other operating expenses	(10)	(262,373)	(236,574)
Earnings before interest, tax, depreciation and amortization (EBITDA)[1]		**502,470**	**428,288**
Amortization of intangible assets and depreciation of property, plant and equipment	(11)	(134,551)	(135,093)
Income from the release of investment grants		3,066	3,118
Earnings before interest and tax (EBIT)[1]		**370,985**	**296,313**
Income from investments accounted for using the equity method	(13)	4,260	17,113
Income from non-current and current financial assets	(14)	905	5,136
Financing costs	(15)	(12,450)	(19,140)
Financial result		**(7,285)**	**3,110**
Allocation of profit or loss to puttable non-controlling interests	(3)	(6,298)	(4,809)
Earnings before tax (EBT)[1]		**357,403**	**294,614**
Income tax expense	(16)	(75,683)	(65,523)
Net profit for the year		**281,720**	**229,091**
Net profit for the year attributable to shareholders of Lenzing AG		277,978	225,019
Net profit for the year attributable to non-controlling interests		3,741	4,072
Earnings per share		**EUR**	**EUR**
Diluted = basic	(17)	10.47	8.48

1) EBITDA: Operating result before depreciation and amortization resp. earnings before interest, tax, depreciation on property, plant and equipment and amortization of intangible assets and before income from the release of investment grants.
EBIT: Operating result, resp. earnings before interest and tax.
EBT: Earnings before tax.

Consolidated Statement of Comprehensive Income

for the period from January 1 to December 31, 2017

			EUR '000
	Note	2017	2016
Net profit for the year as per consolidated income statement		**281,720**	**229,091**
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit liability	(31)	1,267	(11,364)
Income tax relating to these components of other comprehensive income	(27)	(304)	2,903
Investments accounted for using the equity method - share of other comprehensive income (net of tax)	(20)	(12)	(419)
		950	**(8,880)**
Items that may be reclassified to profit or loss			
Foreign operations – foreign currency translation differences arising during the reporting period	(27)	(42,263)	4,478
Foreign operations - reclassification of foreign currency translation differences due to loss of control		0	0
Available-for-sale financial assets – net fair value gain/loss on remeasurement recognized during the year	(27)	2,981	1,330
Available-for-sale financial assets – reclassification of amounts relating to financial assets disposed during the year	(27)	(263)	(141)
Cash flow hedges – effective portion of changes in fair value recognized during the year	(27)	21,493	(9,717)
Cash flow hedges – reclassification to profit or loss	(27)	(8,533)	5,101
Income tax relating to these components of other comprehensive income	(27)	(3,583)	730
Investments accounted for using the equity method - share of other comprehensive income (net of tax)	(27)	(246)	117
		(30,413)	**1,898**
Other comprehensive income – net of tax		**(29,463)**	**(6,982)**
Total comprehensive income		**252,257**	**222,109**
Attributable to shareholders of Lenzing AG		252,855	216,883
Attributable to non-controlling interests		(598)	5,225

Consolidated Statement of Financial Position

as at December 31, 2017

EUR '000

Assets	Note	31/12/2017	31/12/2016
Intangible assets	(18)	20,361	18,298
Property, plant and equipment	(19)	1,367,197	1,278,907
Investments accounted for using the equity method	(20)	8,422	12,737
Financial assets	(21)	36,442	25,068
Deferred tax assets	(30)	3,991	4,067
Current tax assets	(30)	4,855	4,415
Other non-current assets	(22)	8,933	9,587
Non-current assets		**1,450,202**	**1,353,079**
Inventories	(23)	340,056	329,430
Trade receivables	(24,25)	292,770	277,407
Current tax assets	(30)	227	721
Other current assets	(26)	107,562	105,053
Cash and cash equivalents		306,455	559,599
Current assets		**1,047,069**	**1,272,210**
Total assets		**2,497,270**	**2,625,288**

Equity and liabilities	Note	31/12/2017	31/12/2016
Share capital		27,574	27,574
Capital reserves		133,919	133,919
Other reserves		(1,619)	23,504
Retained earnings		1,316,434	1,151,143
Equity attributable to shareholders of Lenzing AG		**1,476,309**	**1,336,141**
Non-controlling interests		31,570	32,395
Equity	**(27)**	**1,507,879**	**1,368,535**
Financial liabilities	(29)	255,330	328,266
Government grants	(28)	18,307	16,970
Deferred tax liabilities	(30)	52,685	52,929
Provisions	(31)	131,742	138,135
Puttable non-controlling interests	(3)	17,967	12,970
Other liabilities	(32)	3,815	3,664
Non-current liabilities		**479,846**	**552,933**
Financial liabilities	(29)	127,270	249,247
Trade payables	(32)	218,433	227,208
Government grants	(28)	7,924	11,935
Current tax liabilities		21,636	25,679
Provisions	(31)	95,749	97,230
Other liabilities	(32)	38,532	92,519
Current liabilities		**509,545**	**703,820**
Total equity and liabilities		**2,497,270**	**2,625,288**

Consolidated Statement of Changes in Equity

for the period from January 1 to December 31, 2017

	Note	Share capital	Capital reserves	Foreign currency translation reserve
As at 01/01/2016 (previously)		**27,574**	**133,919**	**65,431**
Error correction in accordance with IAS 8	(2)	0	0	(871)
As at 01/01/2016 (restated)		**27,574**	**133,919**	**64,560**
Net profit for the year as per consolidated income statement		0	0	0
Other comprehensive income – net of tax		0	0	3,382
Total comprehensive income		**0**	**0**	**3,382**
Acquisition/disposal of non-controlling interests and other changes in the scope of consolidation	(3.27)	0	0	0
Share-based payments	(40)	0	0	0
Dividends		0	0	0
Reclassification due to settlement or disposal of defined benefit plans		0	0	0
As at 31/12/2016 = 01/01/2017		**27,574**	**133,919**	**67,942**
Net profit for the year as per consolidated income statement		0	0	0
Other comprehensive income – net of tax		0	0	(38,312)
Total comprehensive income		**0**	**0**	**(38,312)**
Acquisition/disposal of non-controlling interests and other changes in the scope of consolidation	(3.27)	0	0	0
Share-based payments	(40)	0	0	0
Dividends		0	0	0
Reclassification due to the change in share-based remuneration	(40)	0	0	0
As at 31/12/2017	**(27)**	**27,574**	**133,919**	**29,630**

Other reserves						EUR '000
Available-for-sale financial assets	Hedging reserve	Actuarial gains/ losses	Retained earnings	Equity attributable to shareholders of Lenzing AG	Non-controlling interests	Equity
1,552	**(2,624)**	**(33,212)**	**986,799**	**1,179,439**	**27,255**	**1,206,694**
0	0	0	(6,952)	**(7,823)**	0	**(7,823)**
1,552	**(2,624)**	**(33,212)**	**979,848**	**1,171,616**	**27,255**	**1,198,871**
0	0	0	225,019	**225,019**	4,072	**229,091**
892	(3,597)	(8,813)	0	**(8,136)**	1,154	**(6,982)**
892	**(3,597)**	**(8,813)**	**225,019**	**216,883**	**5,225**	**222,109**
0	0	0	(2)	**(2)**	2	**0**
0	0	0	743	**743**	0	**743**
0	0	0	(53,100)	**(53,100)**	(88)	**(53,188)**
0	0	1,365	(1,365)	**0**	0	**0**
2,444	**(6,221)**	**(40,661)**	**1,151,143**	**1,336,141**	**32,395**	**1,368,535**
0	0	0	277,978	**277,978**	3,741	**281,720**
2,039	10,057	1,092	0	**(25,123)**	(4,340)	**(29,463)**
2,039	**10,057**	**1,092**	**277,978**	**252,855**	**(598)**	**252,257**
0	0	0	(1)	**(1)**	1	**0**
0	0	0	743	**743**	0	**743**
0	0	0	(111,510)	**(111,510)**	(227)	**(111,737)**
0	0	0	(1,919)	**(1,919)**	0	**(1,919)**
4,483	**3,837**	**(39,569)**	**1,316,434**	**1,476,309**	**31,570**	**1,507,879**

Consolidated Statement of Cash Flows

for the period from January 1 to December 31, 2017

EUR '000

	Note	2017	2016
Net profit for the year		**281,720**	**229,091**
+ Amortization of intangible assets and depreciation of property, plant and equipment	(11)	134,551	135,093
- Income from the release of investment grants		(3,066)	(3,118)
+/- Change in non-current provisions		(1,093)	6,562
- Income/+ expenses from deferred taxes		(1,023)	4,471
+/- Change in current tax assets and liabilities		(4,054)	19,361
+/- Income from investments accounted for using the equity method		4,056	(17,113)
- Other non-cash income/+ expenses	(33)	7,590	11,556
Gross cash flow		**418,681**	**385,903**
+/- Change in inventories		(33,900)	431
+/- Change in receivables		(54,277)	(14,555)
+/- Change in liabilities		(59,398)	101,595
Change in working capital		**(147,576)**	**87,471**
Cash flow from operating activities		**271,105**	**473,374**
- Acquisition of intangible assets, property, plant and equipment (CAPEX)		(238,757)	(107,239)
- Acquisition of financial assets and investments accounted for using the equity method		(6,543)	(3,530)
+ Proceeds from the sale of intangible assets, property, plant and equipment		226	155
+ Proceeds from the sale/repayment of financial assets and sale of investments accounted for using the equity method	(33)	23,408	5,563
+ Net inflow from the sale and disposal of subsidiaries and other business areas	(4)	3,063	1,440
Cash flow from investing activities		**(218,603)**	**(103,611)**
- Distribution to shareholders		(111,737)	(53,188)
+ Investment grants		1,855	1,146
+ Increase in other financial liabilities	(33)	15,922	6,551
- Repayment of bonds and private placements	(33)	(120,000)	(40,500)
- Repayment of other financial liabilities	(33)	(83,204)	(71,311)
Cash flow from financing activities		**(297,163)**	**(157,302)**
Total change in liquid funds		**(244,661)**	**212,461**
Liquid funds at beginning of the year		559,599	347,254
Currency translation adjustment relating to liquid funds		(8,483)	(115)
Liquid funds at the end of the year		**306,455**	**559,599**
Additional information on payments in cash flow from operating activities:			
Interest payments received		2,058	1,861
Interest payments made		14,549	18,369
Income taxes paid		80,625	42,953
Distributions received from investments accounted for using the equity method		5,081	0

Notes to the Consolidated Financial Statements

as at December 31, 2017

General Information

Note 1. Basic information

Description of the company and its business activities

Lenzing Aktiengesellschaft (Lenzing AG), which maintains its registered headquarters in 4860 Lenzing, Werkstrasse 2, Austria, is the parent company of the Lenzing Group (the "Group"). The shares of Lenzing AG are listed in the Prime Market Segment (since April 18, 2011) and in the ATX benchmark index (since September 19, 2011) of the Vienna Stock Exchange in Vienna, Austria.

The core shareholder of Lenzing AG as at December 31, 2017 is the B&C Group, which directly and indirectly holds an investment of 50 percent plus two shares (December 31, 2016: 62.60 percent) in the share capital of Lenzing AG. The direct majority shareholder of Lenzing AG is B&C Lenzing Holding GmbH, Vienna. The indirect majority shareholder of Lenzing AG, which prepares and publishes consolidated financial statements that include the Lenzing Group, is B&C Holding Österreich GmbH, Vienna. The ultimate parent company of the B&C Group, and therefore also of Lenzing AG, is B&C Privatstiftung, Vienna.

The core business of the Lenzing Group is the production and marketing of botanic cellulose fibers. The pulp required for production is manufactured for the most part in the Group's own plants and is supplemented by external purchases. In addition, the Lenzing Group operates in the area of mechanical and plant engineering and offers engineering services.

Basis of Reporting

The consolidated financial statements for the period from January 1 to December 31, 2017 were prepared in accordance with the International Financial Reporting Standards (IFRSs) and interpretations which were endorsed in the EU and required mandatory application as of the reporting date. The additional requirements of Section 245a Para. 1 of the Austrian Commercial Code ("Unternehmensgesetzbuch") were also met.

The reporting currency is the euro (EUR), which is also the functional currency of Lenzing AG and the majority of its subsidiaries. The figures shown in these consolidated financial statements and notes were rounded to the next thousand, unless indicated otherwise ("EUR '000"). The use of automatic data processing tools can lead to rounding differences in the addition of rounded amounts and percentage rates.

Measurement

Assets and liabilities are principally measured at amortized or depreciated cost. In contrast, other measurement methods are used for the following material positions:

- Provisions are measured at the present value of the expected settlement amount.
- Deferred tax assets and deferred tax liabilities are recognized at their nominal value. They are measured on the basis of the temporary differences existing as at the reporting date and the effective tax rate expected when the differences are realized.
- Derivative financial instruments and available-for-sale financial assets are measured at their fair value.

Estimation uncertainty and judgments

The Management Board of Lenzing AG uses estimates, assumptions and judgments in preparing the IFRS consolidated financial statements. These estimates, assumptions and judgments are based on the circumstances assumed as at the reporting date and can have a significant effect on the presentation of the Group's financial position and financial performance. They involve the recognition and measurement of assets and liabilities, contingent receivables and liabilities, the reporting of cash flows and income and expenses (including other comprehensive income) as well as the presentation of disclosures in the notes.

Assumptions and estimates

The following future-oriented assumptions used by the Lenzing Group and other major sources of estimation uncertainty at the reporting date are connected with a considerable risk which could lead to a material adjustment of the financial position and financial performance – in particular, the carrying amounts of assets and liabilities – during the next reporting period:

- Goodwill (see note 18) and property, plant and equipment (see note 19): determination of the recoverable amount in connection with impairment testing as defined in IAS 36.
- Provisions (see note 31): determination of the expected settlement amount and the net liability of the defined benefit pension and severance payment plans.
- Deferred taxes and receivables from current taxes (see note 30): assessment of the extent to which deferred tax assets (in particular, from loss carryforwards) can be utilized and assessment of the recoverability of receivables from current taxes.

Assumptions and estimates are based on experience and other factors that are considered relevant by the Management Board. However, the amounts actually realized can deviate from these assumptions and estimates if general conditions develop in a different way than the expectations as at the reporting date.

Judgments

The application of accounting policies by the Lenzing Group included the following major judgments, which had a material influence on the amounts reported in the consolidated financial statements:

- Receivables within the scope of factoring agreements (see note 35): assessment of the requirements for derecognition as defined in IAS 39.
- Liabilities within the scope of reverse factoring agreements (see note 32): assessment of the requirements for derecognition as defined in IAS 39.
- Full consolidation and equity method (see note 3 and note 43): assessment of the existence of control over subsidiaries and assessment of the existence of joint control or significant influence.
- Sale of investments accounted for using the equity method (see note 20): evaluation and measurement of the partial sale of the investment in EQUI-Fibres Beteiligungsgesellschaft mbH (EFB), Kelheim, Germany, including the recoverable amount of the outstanding purchase price receivables and non-current loans.
- Evidence of impairment (see note 18): evaluation of indications of impairment resp. for impaired cash-generating units evaluation of the occurrence of material changes in comparison with the previous year.

Note 2. Changes in accounting policies

The accounting policies applied by the Lenzing Group in 2017 remained unchanged in comparison with the previous financial year, with the exception of the changes described in this section.

Mandatory changes in accounting policies

The following new and amended standards and interpretations were adopted into EU law and required mandatory application by the Lenzing Group beginning with the 2017 financial year:

Standards / interpretations		Publication by the IASB	Mandatory application according to IASB for financial years from	Adopted by the EU as at 31/12/2017
IAS 12	Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses	19/01/2016	01/01/2017	Yes
IAS 7	Statement of Cash Flows: Disclosure Initiative	29/01/2016	01/01/2017	Yes
IFRS 12	Amendment Disclosure of Interests in Other Entities: Clarification of disclosure requirements for interests classified in accordance with IFRS 5	08/12/2016	01/01/2017	Yes[1]

1) Adopted by the EU on February 7, 2018.

Additional disclosures on the change in financial liabilities were included in the notes (see note 33) in accordance with the amendments to IAS 7 (Statement of Cash Flows: Disclosure Initiative). The other new or amended standards and interpretations applicable as of January 1, 2017 did not result in any significant changes to the consolidated financial statements of the Lenzing Group.

The following new or amended standards and interpretations had been published by the IASB prior to the preparation of these consolidated financial statements, but did not require mandatory application by the Lenzing Group for financial years beginning on or before January 1, 2017:

Standards/interpretations		Publication by the IASB	Mandatory application according to IASB for financial years from	Adopted by the EU as at 31/12/2017
IFRS 14	Regulatory Deferral Accounts	30/01/2014	01/01/2016	No[1]
IFRS 15	Revenue from Contracts with Customers	28/05/2014	01/01/2018	Yes
IFRS 9	Financial Instruments	24/07/2014	01/01/2018	Yes
IFRS 10, IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	11/09/2014	unknown[2]	No
IFRS 16	Leases	13/01/2016	01/01/2019	Yes
IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers	12/04/2016	01/01/2018	Yes
IFRS 2	Share-based Payment: Clarification of the Classification and Measurement of Share-based Payment Transactions	20/06/2016	01/01/2018	No
IFRS 4	Applying IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts	12/09/2016	01/01/2018	Yes
IFRS 1, IAS 28	Amendment of a number of IFRSs as a result of the 2014–2016 improvement process	08/12/2016	01/01/2018	Yes
IFRIC 22	Foreign Currency Transactions and Advance Consideration	08/12/2016	01/01/2018	No
IAS 40	Transfers of Investment Property: Classification of Property under Construction	08/12/2016	01/01/2018	No
IFRS 17	Insurance Contracts	18/05/2017	01/01/2021	No
IFRIC 23	Uncertainty over Income Tax Treatments	07/06/2017	01/01/2019	No
IFRS 9	Financial Instruments: Clarification of Prepayment Features with Negative Compensation	12/10/2017	01/01/2019	No
IAS 28	Investments in Associates and Joint Ventures: Clarification of the Application of IFRS 9 on Long-term Interests in Associates and Joint Ventures	12/10/2017	01/01/2019	No
Various	Amendment of a number of IFRSs as a result of the 2015–2017 improvement process	12/12/2017	01/01/2019	No
IAS 19	Employee Benefits: Clarification of accounting rules for plan changes, curtailments or settlements	07/02/2018	01/01/2019	No

1) The European Commission does not recommend the adoption of interim standard IFRS 14 into EU law at the present time.
2) The IASB has postponed the application date of this standard for an indefinite period.

The above-mentioned new or amended standards and interpretations were not adopted prematurely by the Lenzing Group. They are expected to have the following effects on the Group's financial position and financial performance in future financial years:

- **IFRS 9 (and IFRS 7):** IFRS 9 (Financial Instruments) includes changes in the categorization and measurement of financial instruments, the impairment of financial assets and regulations on hedge accounting. The Lenzing Group has identified the following effects of IFRS 9: there will be no material changes based on the new categories of financial instruments. An evaluation of the business model and the cash flows connected with interest and principal payments showed that the financial assets generally reflect the categories previously applied under IAS 39 (Financial Instruments: Recognition and Measurement) or the required reclassifications are immaterial and lead to no changes of measurement. The equity instruments previously measured at cost in accordance with IAS 39 will be reclassified to the category "at fair value directly in equity" and will lead to an increase of EUR 5 mn in equity after the deduction of deferred taxes, with no effect on profit or loss, as of January 1, 2018 from the current point of view. A hedge between an equity instrument and a derivative will be designated as a fair value hedge. The expected credit loss model for financial assets will be used for the new impairment model required by IFRS 9. A loss ratio based on historical default rates will be established for portfolios with similar default characteristics. The Lenzing Group does not expect any material change in the amount of impairment losses from the application of the new impairment model since it is also based on historical default rates. From the current point of view, the new impairment model will reduce Group equity by less than EUR 0.5 mn as of January 1, 2018. The Lenzing Group will also apply the new standard IFRS 9 for hedge accounting. All existing hedge accounting relationships are expected to meet the requirements for hedge accounting under IFRS 9 and, consequently, there should be no material changes in valuation methods. In accordance with IFRS 9, hedging costs will be recognized directly in equity. IFRS 7 (Financial Instruments: Disclosures) which was revised in connection with IFRS 9, will lead to changes or expanded disclosures in the notes, specifically regarding impairment losses, hedge accounting and the presentation of financial instrument categories beginning with the financial statements as at June 30, 2018. The Lenzing Group will apply this standard retrospectively beginning on the mandatory initial application date (January 1, 2018) and intends to utilize the exemption not to restate comparative information on the changes in classification and measurement (including impairment) for previous periods.
- **IFRS 15:** IFRS 15 (Revenue from Contracts with Customers) follows a principle-based model and defines when and at what amount revenue must be recognized. It also requires disclosures in the notes on revenue realized from contracts with customers. The analysis of the changes for the Lenzing Group was completed as at December 31, 2017 and included an evaluation of revenue based on the individual segments (see note 5 Segment reporting). This analysis shows that the new standard will not require any material changes to the accounting methods for the timing and amount recognized for revenues from contracts with customers. The revenue recorded by the Lenzing Group results primarily from product

deliveries without special supplementary conditions. Services are responsible for only very limited revenue. The analysis did not identify any material variable consideration, and most of the contracts with customers do not include any variable revenue components. However, changed or expanded disclosures on the realization of revenue will be required in the notes beginning with the 2018 financial year. The Lenzing Group will apply this standard retrospectively beginning on the mandatory initial application date (January 1, 2018).

- **IFRS 16:** IFRS 16 (Leases) introduces changes in the accounting treatment of leases which were previously classified as operating leases by the lessee. Future requirements for the lessee include the capitalization of a right-of-use asset obtained through a lease as well as the recognition of a lease liability and the carryforward of both amounts. Relief is provided for short-term leases and for leases of low-value assets. The accounting treatment by the lessor remains virtually unchanged. The Lenzing Group is currently analyzing the changes that will result from the application of IFRS 16, and the detailed examination is still in progress. All leases held by the Lenzing Group have been examined and, at this time, there are no material individual leases. The contract portfolio consists of many small leases, each of which is immaterial in value. The selection of software to administer and record the Group's leases is now in progress. From the current point of view, the Lenzing Group expects the application of IFRS 16 will result in the recognition of rights of use (increase in non-current assets) and lease liabilities (increase in financial liabilities) which were previously classified as operating leases (see Note 39) in which the Lenzing Group is the lessee. The previous analysis has shown that this new standard will lead to an immaterial increase in total assets. In addition, the previous straight-line recognition of leasing expenses will be replaced by the amortization of rights of use and interest expense on the lease liability. EBITDA, EBIT and cash flow from operating activities are expected to improve as a result of the amended reporting requirements. Amended or expanded disclosures in the notes on lease accounting will be required. The Lenzing Group will use the modified retrospective approach for the application of this standard beginning on the mandatory application date (January 1, 2019).
- **Other:** A number of other standards, amendments and interpretations are not relevant for the Lenzing Group or do not have any significant impact on the Group's earnings, assets, liabilities or cash flows.

The application of these standards and interpretations is generally planned following their endorsement by the EU.

In connection with a random review by the Austrian Financial Reporting Enforcement Panel (AFREP; "Österreichische Prüfstelle für Rechnungslegung"), the Lenzing Group's consolidated financial statements as at December 31, 2014 and the half-year financial statements as at June 30, 2014 and June 30, 2015 were selected and audited in accordance with Section 2 Para. 1 no. 2 of the Austrian Financial Reporting Enforcement Act ("Rechnungslegungs-Kontrollgesetz"; review without particular cause).

The consolidated financial statements as at December 31, 2014 contained net deferred tax assets of EUR 15.9 mn from a Chinese production site, which included deferred tax assets on loss carryforwards totaling EUR 4.7 mn that should not have been recognized (i.e. approximately 0.7 percent of total assets as at December 31, 2014; EBIT and EBITDA for the 2014 financial year were not affected). The probability of sufficient taxable profit and the convincing substantial evidence required by IAS 12.29(a) in connection with IAS 12.35 for the consolidated financial statements as at December 31, 2014 could not be substantiated. The AFREP therefore classified this as an error in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). Errors from previous periods are corrected retrospectively. This error is explained in detail in the consolidated financial statements as at December 31, 2016 (see note 2 in that report). This error had the following effects on the consolidated statement of financial position as at January 1, 2016:

Error correction to the consolidated statement of financial position in accordance with IAS 8 EUR '000

01/01/2016			
Assets	**Previously**	**Error correction**	**Restated**
Deferred tax assets	17,253	(11,176)	6,077
Other non-current assets	1,375,804		1,375,804
Non-current assets	**1,393,057**	**(11,176)**	**1,381,881**
Current assets	**1,028,753**		**1,028,753**
Total assets	**2,421,810**	**(11,176)**	**2,410,634**
Equity and liabilities			
Share capital	27,574		27,574
Capital reserves	133,919		133,919
Other reserves	31,147	(871)	30,275
Retained earnings	986,799	(6,952)	979,848
Equity attributable to shareholders of Lenzing AG	**1,179,439**	**(7,823)**	**1,171,616**
Non-controlling interests	27,255		27,255
Equity	**1,206,694**	**(7,823)**	**1,198,871**
Puttable non-controlling interests	11,686	(3,353)	8,334
Other non-current liabilities	707,379		707,379
Non-current liabilities	**719,065**	**(3,353)**	**715,712**
Current liabilities	**496,051**		**496,051**
Total equity and liabilities	**2,421,810**	**(11,176)**	**2,410,634**

Voluntary changes in accounting policies

There were no voluntary changes to accounting policies during the 2017 financial year.

Note 3. Consolidation

Scope of consolidation

The consolidated financial statements of the Lenzing Group include Lenzing AG, as the parent company, and its subsidiaries, all on the basis of financial statements as at December 31, 2017.

The number of companies included in the scope of consolidation developed as follows:

Development of the scope of consolidation (incl. parent company)	2017		2016	
	Full-consolidation	Equity	Full-consolidation	Equity
As at 01/01	**27**	**8**	**29**	**8**
Included in consolidation for the first time during the year	2	0	2	0
Merged during the year	0	0	(3)	0
Deconsolidated during the year	0	(1)	(1)	0
As at 31/12	**29**	**7**	**27**	**8**
Thereof in Austria	10	4	10	4
Thereof abroad	19	3	17	4

A list of the group companies as at December 31, 2017 is provided in note 43. The most important group companies produce and market botanic cellulose fibers and, in some cases, pulp (Segment Fibers).

Lenzing AG controls assets in the GF 82 wholesale fund, a special fund under Section 20a of the Austrian Investment Fund Act ("österreichisches Investmentfondsgesetz") on the basis of its comprehensive co-determination rights. This fund is therefore classified as a structured entity and included in the consolidation. The securities held by the fund are intended, above all, to fulfill the securities coverage requirements for the pension provisions related to Austrian pension plans as required by Section 14 of the Austrian Income Tax Act ("österreichisches Einkommensteuergesetz"). The material risks to which the fund is exposed are unchanged and represent traditional investment risks (especially default and market price risks). The Lenzing Group does not intend to provide the fund with financial or other assistance or help with the procurement of financial support at the present time.

Lenzing Singapore Pte. Ltd., Singapore, Republic of Singapore and Lenzing Korea Yuhan Hoesa, Seoul, Republic of Korea were founded in July 2016 and November 2016, respectively, and subsequently included in the scope of consolidation.

The investment in LP Automotive GmbH, Lenzing, was merged into Lenzing Technik GmbH, Lenzing, during 2016. The investments in Energie- und Medienzentrale Heiligenkreuz GmbH, Heiligenkreuz, and Lenzing Beteiligungs GmbH, Lenzing, were merged into Pulp Trading GmbH, Lenzing.

The previously consolidated subsidiary Tencel Holding Ltd, Manchester, Great Britain, was deconsolidated in December 2016 because its liquidation had been essentially completed from an economic standpoint.

Lenzing Elyaf Anonim Sirketi, Istanbul, Turkey, and Lenzing (Thailand) Co., Ltd., Bangkok, Thailand, were founded in January 2017 and August 2017, respectively, and subsequently included in the scope of consolidation.

The closing for the sale of LKF Tekstil Boya Sanayi ve Ticaret Anonim Sirketi, Istanbul, Turkey, took place in May 2017. This disposal generated a gain of EUR 0.2 mn, which is reported under income from investments accounted for using the equity method.

There were no other business combinations or changes in the scope of consolidation.

Basis of consolidation

Subsidiaries are companies controlled by the parent company. The Lenzing Group decides individually for each acquisition whether the non-controlling interests in the acquired subsidiary will be recognized at fair value or based on the proportional share of the acquired net assets. On acquisition, non-controlling interests are measured at fair value or the corresponding share of recognized net assets and are reported under equity and comprehensive income as "non-controlling interests".

The shares of capital attributable to the non-controlling shareholders of certain companies are reported as puttable non-controlling interests. These shares are not classified as equity under IFRS because of the time limits defined by company law for the involved companies and are initially measured at fair value, which generally corresponds to the fair value of the non-controlling shareholder's contribution at the time it was made. Subsequent measurement involves an increase or decrease in the amount recognized under liabilities on initial measurement to reflect the gain or loss incurred up to the measurement date.

The investments in associates and joint ventures are accounted for by applying the equity method.

The reporting currency of Lenzing AG and the Lenzing Group is the euro. The subsidiaries prepare their annual financial statements in their respective functional currency. The following key exchange rates were used for translation into the reporting currency:

Exchange rates for key currencies			2017		2016	
Unit	Currency		End of the year	Average	End of the year	Average
1 EUR	USD	US Dollar	1.1993	1.1293	1.0541	1.1066
1 EUR	GBP	British Pound	0.8872	0.8761	0.8562	0.8189
1 EUR	CZK	Czech Koruna	25.5350	26.3272	27.0210	27.0343
1 EUR	CNY	Renminbi Yuan	7.8044	7.6264	7.3202	7.3496
1 EUR	HKD	Hong Kong Dollar	9.3720	8.8012	8.1751	8.5900
1 EUR	INR	Indian Rupee	76.6055	73.4980	71.5935	74.3553
1 EUR	KRW	Korean Won	1,279.6100	1,275.8325	1,269.3600	1,284.5650
1 EUR	TRY	Turkish Lira	4.5464	4.1214	-	-

Note 4. Non-current assets and liabilities held for sale, disposal groups and discontinued operations

2017 financial year

Expenses of EUR 562 thousand before income tax were realized in 2017 in connection with previously sold business areas and former discontinued operations due to the elimination of uncertainties and changes in estimates. These expenses were connected with tax expense of EUR 54 thousand. The result after tax therefore equals EUR minus 616 thousand. These amounts are attributable in full to the owners of the parent company. The cash effects are related to the payment of earn out receivables of EUR 2,500 thousand from the sale of consolidated subsidiaries in previous years. They are presented under cash flow from investing activities as part of the "net inflow from the sale and disposal of subsidiaries and other business areas".

The Lenzing Group had no non-current assets and liabilities held for sale and no discontinued operations as at December 31, 2017.

2016 financial year

Individual business areas of Lenzing Technik Fertigung were sold during April 2016. This led to the loss of control by the Lenzing Group and the subsequent deconsolidation of these business areas. The deconsolidation involved EUR 394 thousand of non-current assets, EUR 1,601 thousand of cash and cash equivalents, EUR 1,178 thousand of provisions and EUR 323 thousand of other current liabilities. The consideration received for the sale of the assets and liabilities totaled EUR 341 thousand. The resulting negative deconsolidation result of EUR 154 thousand is reported under other operating expenses. The net cash inflow of EUR minus 1,260 thousand from the sale is presented under cash flow from investing activities as part of the "net inflow from the sale and disposal of subsidiaries and other business areas" and comprises the cash consideration of EUR 341 thousand received less cash and cash equivalents of EUR 1,601 thousand sold.

Income of EUR 4,743 thousand before income tax was realized in 2016 in connection with previously sold business areas and former discontinued operations due to the elimination of uncertainties and changes in estimates. This income was connected with tax expense of EUR 197 thousand. The result after tax therefore equaled EUR 4,546 thousand. These amounts were attributable in full to the owners of the parent company. The cash effects were related to the payment of earn out receivables of EUR 2,700 thousand from the sale of consolidated subsidiaries in previous years. They were presented under cash flow from investing activities as part of the "net inflow from the sale and disposal of subsidiaries and other business areas".

Note 5. Segment Reporting

The Lenzing Group classifies its segments based on the differences between their products and services, which require individual technologies and market strategies. Each segment is managed in line with the responsibilities assigned to the various members of the Management Board. The chief operating decision maker relevant for segment reporting is the Management Board of Lenzing AG as a whole. The following segments are presented separately in the internal reporting of the Lenzing Group to the Management Board:

Segment Fibers

The Segment Fibers manufactures botanic cellulose fibers which are marketed under the product brands TENCEL™, VEOCEL™ and LENZING™. A significant portion of the pulp required for these products is produced in the Group's own plants, whereby the internal volumes are supplemented by external purchases. The most important raw material for the manufacture of pulp is wood, which is purchased externally. The Segment Fibers forms the core business of the Lenzing Group.

The Segment Fibers comprises, above all, the business areas Textile Fibers (fibers for textiles), Nonwoven Fibers (fibers for nonwoven fabrics) and Pulp & Wood (pulp, wood and biochemicals) due to their comparability with the key business characteristics of the cellulose fiber industry (products, production process, customers and distribution methods). These business areas are part of an integrated value chain (from the raw material wood via the pre-product pulp to the finished product fiber) with similar risks and opportunities. This segment also includes, in particular, the business area Energy because it has by far the highest energy requirements in the Lenzing Group due to the energy-intensive nature of the fiber and pulp production process.

Segment Lenzing Technik

The Segment Lenzing Technik operates in the field of mechanical and plant engineering and offers engineering services. It comprises the business area Lenzing Technik.

Other

The residual segment Other covers the business activities of BZL-Bildungszentrum Lenzing GmbH, Lenzing (training and personnel development).

The residual segment Other does not include any business areas that would exceed the quantitative thresholds for reportable segments.

Information on business segments EUR '000

2017 and 31/12/2017	Fibers	Lenzing Technik	Other	Segment total	Reconciliation	Group
Revenue from external customers	2,244,505	12,802	2,091	**2,259,398**	0	**2,259,398**
Inter-segment revenue	6,683	29,469	2,695	**38,848**	(38,848)	**0**
Total revenue	**2,251,188**	**42,271**	**4,786**	**2,298,245**	**(38,848)**	**2,259,398**
EBITDA (segment result)	499,207	3,445	983	**503,634**	(1,164)	**502,470**
EBIT	364,769	2,806	951	**368,527**	2,458	**370,985**
Amortization of intangible assets and depreciation of property, plant and equipment	137,503	640	31	**138,174**	(3,622)	**134,551**
Thereof impairment	221	0	0	**221**	0	**221**
Income from investments accounted for using the equity method	4,216	0	44	**4,260**	0	**4,260**
Other material non-cash income and expenses	70,433	3,504	260	**74,197**	0	**74,197**
Acquisition of intangible assets, property, plant and equipment (CAPEX)	236,065	2,608	84	**238,757**	0	**238,757**
EBITDA margin[1]	22.2 %	8.1 %	20.5 %	**21.9 %**		**22.2 %**
EBIT margin[2]	16.2 %	6.6 %	19.9 %	**16.0 %**		**16.4 %**
Segment assets	2,146,692	28,537	1,373	**2,176,602**	320,668	**2,497,270**
Segment liabilities	494,312	28,924	1,769	**525,005**	464,386	**989,391**
Investments accounted for using the equity method	6,557	0	1,865	**8,422**	0	**8,422**

Information on business segments (previous year) EUR '000

2016 and 31/12/2016	Fibers	Lenzing Technik	Other	Segment total	Reconciliation	Group
Revenue from external customers	2,118,114	13,992	1,969	**2,134,075**	0	**2,134,075**
Inter-segment revenue	7,093	21,917	2,156	**31,166**	(31,166)	**0**
Total revenue	**2,125,207**	**35,908**	**4,125**	**2,165,241**	**(31,166)**	**2,134,075**
EBITDA (segment result)	428,472	(488)	785	**428,769**	(482)	**428,288**
EBIT	293,652	(1,154)	737	**293,236**	3,077	**296,313**
Amortization of intangible assets and depreciation of property, plant and equipment	137,935	669	48	**138,651**	(3,559)	**135,093**
Thereof impairment	2,265	0	0	**2,265**	0	**2,265**
Income from investments accounted for using the equity method	17,078	0	35	**17,113**	0	**17,113**
Other material non-cash income and expenses	84,107	2,955	102	**87,165**	0	**87,165**
Acquisition of intangible assets, property, plant and equipment (CAPEX)	106,363	839	37	**107,239**	0	**107,239**
EBITDA margin[1]	20.2 %	(1.4)%	19.0 %	**19.8 %**		**20.1 %**
EBIT margin[2]	13.8 %	(3.2)%	17.9 %	**13.5 %**		**13.9 %**
Segment assets	2,033,401	16,169	1,406	**2,050,976**	574,313	**2,625,288**
Segment liabilities	561,723	17,569	1,837	**581,128**	675,625	**1,256,753**
Investments accounted for using the equity method	10,876	0	1,861	**12,737**	0	**12,737**

1) EBITDA margin = EBITDA (operating result before depreciation and amortization) in relation to total revenue (here: according to segment reporting).
2) EBIT margin = EBIT (operating result) in relation to total revenue (here: according to segment reporting).

Other material non-cash income and expenses represent non-cash measurement effects from provisions and accruals.

The performance of the segments is measured by EBITDA before restructuring (earnings before interest, tax, depreciation on property, plant and equipment and amortization of intangible assets, before income from the release of investment grants and before restructuring).

One-off effects from restructuring represent material income or expenses that do not regularly recur in terms of their type or amount, above all in connection with business combinations, impairment, restructuring or similar measures.

The following table shows the reconciliation of segment result to operating result (EBIT) and earnings before tax (EBT):

Reconciliation of segment result (EBITDA) to the earnings before tax (EBT)		EUR '000
	2017	**2016**
Segment result (EBITDA)	503,634	428,769
Consolidation	(1,681)	(1,065)
Restructuring	518	583
Group result (EBITDA)	**502,470**	**428,288**
Segment amortization of intangible assets and depreciation of property, plant and equipment	(138,174)	(138,651)
Consolidation	3,622	3,559
Income from the release of investment grants	3,066	3,118
Earnings before interest and tax (EBIT)	**370,985**	**296,313**
Financial result	(7,285)	3,110
Allocation of profit or loss to puttable non-controlling interests	(6,298)	(4,809)
Earnings before tax (EBT)	**357,403**	**294,614**

The consolidated income statement shows the reconciliation of earnings before tax (EBT) to net profit for the year.

Restructuring includes the following components:

Restructuring		EUR '000
	2017	**2016**
Restructuring measures		
Other operating income	518	542
Personnel expenses	0	165
Other operating expenses	0	(124)
Total	**518**	**583**

The reconciliation of segment EBIT to operating result (EBIT) after restructuring is as follows:

Reconciliation of segment EBIT to earnings before interest and tax (EBIT)		EUR '000
	2017	**2016**
Segment EBIT	368,527	293,236
Result from restructuring and impairment	518	583
Consolidation	1,941	2,494
Earnings before interest and tax (EBIT)	**370,985**	**296,313**

The reconciliation of segment amortization and depreciation to consolidated amortization and depreciation is shown below:

Reconciliation of segment amortization and depreciation to consolidated amortization and depreciation		EUR '000
	2017	**2016**
Segment amortization of intangible assets and depreciation of property, plant and equipment	138,174	138,651
Consolidation	(3,622)	(3,559)
Consolidated amortization and depreciation	**134,551**	**135,093**

Segment assets consist chiefly of intangible assets and property, plant and equipment, inventories, trade receivables and other receivables (excluding income tax receivables). The reconciliation of segment assets to consolidated assets (corresponding to total assets, i.e. the total of non-current and current assets or the total of equity and non-current and current liabilities) is as follows:

Reconciliation of segment assets to consolidated assets		EUR '000
	31/12/2017	**31/12/2016**
Segment assets	2,176,602	2,050,976
Investments accounted for using the equity method	8,422	12,737
Assets not allocated to the segments		
Financial assets	36,442	25,068
Deferred tax assets and current tax assets	9,073	9,202
Cash and cash equivalents	306,455	559,599
Consolidation	(39,724)	(32,294)
Consolidated assets	**2,497,270**	**2,625,288**

Segment liabilities consist primarily of trade payables, provisions and other liabilities (excluding current tax liabilities). The reconciliation of segment liabilities to consolidated liabilities is shown in the following table:

Reconciliation of segment liabilities to consolidated liabilities		EUR '000
	31/12/2017	**31/12/2016**
Segment liabilities	525,005	581,128
Liabilities not allocated to the segments		
Financial liabilities	382,599	577,513
Deferred tax liabilities and current tax liabilities	74,322	78,608
Government grants	26,231	28,905
Consolidation	(18,766)	(9,401)
Consolidated liabilities	**989,391**	**1,256,753**

The reconciliations of segment items to consolidated items that are not described in greater detail above (revenue and investments) consist entirely of consolidation effects. The carrying amounts for segment reporting are based on the same accounting policies applied to the IFRS consolidated financial statements.

Information on products and services

Revenue from external customers can be classified by products and services as follows:

Revenue from external customers by products and services		EUR '000
	2017	**2016**
Botanic cellulose fibers	1,958,714	1,893,472
Sodium sulfate and black liquor	49,119	49,780
Pulp, wood, energy and other	243,355	181,955
Segment Fibers	**2,251,188**	**2,125,207**
Mechanical and plant engineering and engineering services – Lenzing Technik Segment	42,271	35,908
Other and consolidation	(34,062)	(27,041)
Revenue as per consolidated income statement	**2,259,398**	**2,134,075**

No single external customer is responsible for more than 10 percent of external revenue.

Information on geographical regions

The following table provides a classification of revenue from external customers by sales market and of total assets, non-current assets (excluding financial instruments and tax assets; reconciled to the consolidated figures for total non-current assets) and acquistion of intangible assets and property, plant and equipment (CAPEX) by geographic area.

Information on geographic regions — EUR '000

	Revenue		Non-current assets		Total assets		CAPEX	
	2017	2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	2017	2016
Austria	120,662	117,831	850,610	743,292	1,185,531	1,020,629	168,703	76,741
Europe (excl. Austria, incl. Turkey)	630,763	577,434	200,447	194,078	288,509	264,914	16,294	16,535
Asia	1,288,093	1,226,310	279,956	323,076	594,807	686,449	23,417	10,461
America	174,205	172,047	66,138	50,204	107,754	78,983	30,342	3,502
Rest of the world	45,675	40,453	0	0	0	0	0	0
Subtotal	**2,259,398**	**2,134,075**	**1,397,151**	**1,310,650**	**2,176,602**	**2,050,976**	**238,757**	**107,239**
Reconciliation to consolidated figures	0	0	53,051	42,429	320,668	574,313	0	0
Consolidated total	**2,259,398**	**2,134,075**	**1,450,202**	**1,353,079**	**2,497,270**	**2,625,288**	**238,757**	**107,239**

Revenue is allocated according to the geographic region of the customer, while assets and investments are allocated by the location of the asset. The above amounts cover all segments of the Lenzing Group. Additional information on the segments is provided in the management report of the Lenzing Group as at December 31, 2017.

Notes on the Consolidated Income Statement

Note 6. Revenue

Revenue comprises the following items:

Revenue		EUR '000
	2017	**2016**
Revenue from the sale of botanic cellulose fibers	1,958,714	1,893,472
Revenue from the sale of other products and services	293,892	222,901
Revenue invoiced	**2,252,605**	**2,116,373**
Revenue from long-term construction contracts	6,792	17,702
Total	**2,259,398**	**2,134,075**

Revenue comprises all income generated by the typical business activities of the Lenzing Group. Included here are income from the sale of products (in particular, sales of botanic cellulose fibers by the Segment Fibers) and the provision of services (in particular, mechanical and plant engineering by the Segment Lenzing Technik).

Income is recognized when the ownership of the products has been transferred to the customer (i.e. with the transfer of risks), when the amount of the income/associated costs can be reliably determined and when it is probable that the economic benefits from the transaction will flow to the Group. The Segment Lenzing Technik operates in the field of mechanical and plant engineering and provides engineering services. A significant portion of its income results from construction contracts. The income from construction contracts is recognized according to the stage of completion in line with the cost-to-cost method (see note 25).

Note 7. Other operating income

Other operating income consists of the following:

Other operating income		EUR '000
	2017	**2016**
Income from recharging of services, other products and energy	34,448	30,469
Income from the release of deferred income for emission certificates and from subsidies	8,644	8,797
Various other income	6,847	6,282
Total	**49,938**	**45,547**

The income from energy includes, among others, income of EUR 23,154 thousand from green energy (2016: EUR 20,160 thousand). Various other income includes, in particular, rental income of EUR 3,967 thousand (2016: EUR 4,406 thousand).

Note 8. Cost of material and other purchased services

The cost of material and other purchased services comprises the following:

Cost of material and other purchased services		EUR '000
	2017	**2016**
Material	1,112,348	1,078,102
Other purchased services	145,611	145,679
Total	**1,257,960**	**1,223,781**

The cost of material is based primarily on the input factors consumed, i.e. pulp (and wood for the internal production of pulp), key chemicals (sodium hydroxide, carbon disulfide and sulfuric acid) and merchandise. The cost of purchased services is related mainly to the consumption of energy.

The cost of the raw material and supplies consumed during the year is based on the weighted average cost method.

Note 9. Personnel expenses

The following table shows the composition of personnel expenses:

Personnel expenses		EUR '000
	2017	**2016**
Wages and salaries	272,984	243,942
Severance payment expenses	5,721	5,893
Retirement benefit expenses	6,213	7,669
Statutory social security expenses	59,973	57,230
Other employee-related costs	4,480	4,499
Total	**349,371**	**319,233**

The number of employees in the Lenzing Group is as follows:

Number of employees (headcount)		
	2017	**2016**
Average	6,308	6,080[1]
As at December 31	6,488	6,218

1) The average excludes members of the Management Board and employees on official leave (e.g. parental or military leave). The data for 2016 were adjusted to reflect this definition.

The following table shows the number of employees in Lenzing AG and the Austrian subsidiaries of the Lenzing Group:

Average number of employees in Austria (headcount)

	2017	2016
Hourly workers	1,747	1,715
Salaried employees	1,258	1,119
Total	**3,006**	**2,833**

Note 10. Other operating expenses

Other operating expenses comprise the following:

Other operating expenses EUR '000

	2017	2016
Selling expenses	99,168	93,631
Expenses for maintenance, repairs and other third-party services	53,358	45,344
Legal, consulting and audit expenses	21,619	19,280
Foreign exchange losses	14,582	3,113
Rental and leasing expenses	14,308	11,822
Travel expenses	10,365	7,300
Insurance expenses	8,250	8,990
Waste disposal expenses	7,531	7,144
Fees, contributions, donations and bank charges	6,700	6,509
Property taxes and similar taxes	5,126	5,277
Registration and defense costs for patents and brands	5,679	4,179
Miscellaneous	15,688	23,985
Total	**262,373**	**236,574**

Selling expenses include expenses of EUR 80,669 thousand (2016: EUR 71,789 thousand) for outgoing freight and EUR 18,499 thousand (2016: EUR 21,842 thousand) for commissions and advertising. Miscellaneous other operating expenses include, among others, the following: expenses of EUR 2,801 thousand (2016: EUR 2,776 thousand) for food and beverages and losses of EUR 501 thousand (2016: EUR 1,808 thousand) on receivables. This item also includes expenses of EUR 2,321 thousand (2016: EUR 2,089 thousand) for emission certificates and losses of EUR 231 thousand (2016: EUR 353 thousand) on the disposal of property, plant and equipment. The total for 2016 includes expenses of EUR 6,206 thousand for compensation to sales agents.

Note 11. Amortization of intangible assets and depreciation of property, plant and equipment

Amortization and depreciation include the following:

Amortization of intangible assets and depreciation of property, plant and equipment EUR '000

	2017	2016
Amortization and depreciation	134,331	132,828
Impairment	221	2,265
Total	**134,551**	**135,093**

Amortization in 2017 includes impairment losses of EUR 221 thousand (2016: EUR 765 thousand), which are reported under the “Development of intangible assets” (see note 18). These impairment losses chiefly represent development costs for internally generated intangible assets in the Segment Fibers. They were recognized to reflect the insufficient technical and economic usability of the intangible assets.

Depreciation of property, plant and equipment in 2017 includes impairment losses of EUR 0 thousand (2016: EUR 1,500 thousand) which are also reported under the “Development of property, plant and equipment” (see note 19). The impairment losses recognized in 2016 are related, in particular, to technical equipment and machinery.

Additional details on impairment are provided in note 18.

Note 12. Auditor’s fees

The fees expensed or agreed for services provided by KPMG Austria GmbH, Linz (previous year: Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna) comprise the following:

Auditors’ fees expensed or agreed EUR '000

2017	Lenzing AG	Subsidiaries	Total
Audit of the annual financial statements (incl. consolidated financial statements)	248	136	384
Other assurance services	97	0	97
Other services	0	0	0
Total	**345**	**136**	**481**

Auditors’ fees expensed or agreed (previous year) EUR '000

2016	Lenzing AG	Subsidiaries	Total
Audit of the annual financial statements (incl. consolidated financial statements)	256	117	373
Other assurance services	51	0	51
Other services	6	0	6
Total	**314**	**117**	**430**

The fees for other assurance services consist chiefly of fees for the review of the consolidated half-year financial statements.

Note 13. Income from investments accounted for using the equity method

The result of EUR 4,260 thousand (2016: EUR 17,113 thousand) corresponds to the Group's share of the current earnings of associates and joint ventures. The amount reported for 2017 also includes a subsequent gain of EUR 3,037 thousand on the sale of EQUI-Fibres Beteiligungsgesellschaft mbH (EFB), Kelheim, Germany. In 2016 this item included a gain of EUR 14,605 thousand on the sale of EQUI-Fibres Beteiligungsgesellschaft mbH (EFB), Kelheim, Germany. This gain on sale also contained an earnings-related component of EUR 3,724 thousand (also see note 20).

Note 14. Income from non-current and current financial assets

The income from non-current and current financial assets consists of the following items:

Income from non-current and current financial assets		EUR '000
	2017	2016
Income from non-current and current financial assets		
Interest income from bank balances, originated loans and receivables and income from available-for-sale securities	3,305	1,644
Measurement and gains from the disposal of non-current financial assets	370	4,240
	3,675	**5,883**
Expenses from non-current and current financial assets		
Measurement of originated loans	(366)	(236)
Measurement of current financial assets	(854)	0
Net foreign currency losses from financial assets	(1,551)	(511)
	(2,771)	**(747)**
Total	**905**	**5,136**

Note 15. Financing costs

Financing costs comprise the following:

Financing costs		EUR '000
	2017	2016
Net foreign currency gains/losses from financial liabilities	1,310	(380)
Interest expense from bonds and private placements	(9,217)	(11,240)
Interest expense from bank loans, other interest and similar expenses	(4,542)	(7,520)
Total	**(12,450)**	**(19,140)**

Note 16. Income tax expense

This item includes current income tax expense as well as income/expense from deferred taxes (changes in deferred tax assets and deferred tax liabilities) and comprises the following:

Income tax expense by source		EUR '000
	2017	2016
Current income tax expense		
Austria	43,079	34,605
Abroad	33,627	26,447
	76,707	**61,052**
Income/expense from deferred taxes	**(1,023)**	**4,471**
Total	**75,683**	**65,523**

Income tax expense by cause		EUR '000
	2017	2016
Current income tax expense		
Tax expense for current year	86,379	74,102
Reduction due to the use of tax losses	(4,426)	(3,064)
Reduction due to the use of tax credits	(5,118)	(8,824)
Adjustment for prior-period income tax	(128)	(1,162)
	76,707	**61,052**
Income/expense from deferred taxes		
Recognition and reversal of temporary differences	1,284	(4,797)
Effects of changes in tax rates	(4,561)	1,271
Change in capitalized loss carryforwards	(45)	(168)
Change in capitalized tax credits	3,616	8,824
Effects of previously unrecognized temporary differences from prior periods	(236)	(95)
Changes in valuation adjustment to deferred tax assets (excl. loss carryforwards)	(1,081)	(563)
	(1,023)	**4,471**
Total	**75,683**	**65,523**

A tax credit of EUR 5,118 thousand was claimed in the Czech Republic during 2017 (2016: EUR 8,824 thousand). A deferred tax asset of EUR 1,609 thousand was recognized to profit or loss in 2017 for a future tax credit because the future utilization is sufficiently certain.

The reconciliation of calculated income tax expense based on the Austrian corporate tax rate of 25 percent (December 31, 2016: 25 percent) to effective income tax expense is shown in the following table:

Tax reconciliation — EUR '000

	2017	2016
Earnings before tax	**357,403**	**294,614**
Calculated income tax expense (25 % of earnings before tax)	89,351	73,654
Tax-free income and tax allowances (particularly research allowance)	(2,734)	(2,793)
Non-deductible expenses, withholding taxes and similar permanent differences	2,948	1,910
Income from investments accounted for using the equity method	(821)	(2,203)
Effect of different tax rates	(3,467)	(1,630)
Changes in tax rates	(4,561)	1,271
Tax income from prior periods	(154)	(1,258)
Exchange rate differences resulting from the translation of deferred tax items from local into functional currency	433	(873)
Change in unrecognized deferred tax assets from loss carryforwards, tax credits and other temporary differences	(7,166)	(3,584)
Tax portion of puttable non-controlling interests	1,574	1,202
Other	280	(173)
Effective income tax expense	**75,683**	**65,523**

The “tax income from prior periods” includes a tax liability of EUR 217 thousand (2016: tax credit of EUR 1,266 thousand) from the tax group with B&C Group (also see note 40).

Lenzing AG and the Austrian subsidiaries of the Lenzing Group are subject to an income tax rate of 25.0 percent (December 31, 2016: 25.0 percent). The income tax rates for foreign companies range from 16.5 percent to 30.9 percent (December 31, 2016: from 16.5 percent to 38.7 percent).

There was a year-on-year change in the tax rate applicable to the calculation of deferred taxes in 2017 from 38.1 percent and 38.7 percent to 24.7 percent and 25.1 percent in the USA.

Note 17. Earnings per share

Earnings per share are calculated as follows:

Earnings per share — EUR '000

	2017	2016
Net profit for the year attributable to shareholders of Lenzing AG used in the calculation of earnings per share	277,978	225,019
Weighted average number of shares	26,550,000	26,550,000
	EUR	**EUR**
Diluted = basic	10.47	8.48

The bonus agreement, which was previously recorded under share-based payments, was reclassified in December 2017 to other long-term employee benefits as defined in IAS 19 (see note 40). Therefore, there were no related effects on diluted earnings per share as at December 31, 2017.

Notes to the Consolidated Statement of Financial Position, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity

Note 18. Intangible assets

Development

Intangible assets developed as follows:

Development of intangible assets				EUR '000
2017	**Goodwill**	**Concessions, industrial property rights, licenses and similar rights**	**Internally generated intangible assets**	**Total**
Cost				
As at 01/01/2017	**98,263**	**17,270**	**15,433**	**130,966**
Currency translation adjustment	(9,966)	(14)	0	**(9,980)**
Additions	0	2,901	737	**3,639**
Disposals	0	(282)	0	**(282)**
As at 31/12/2017	**88,298**	**19,875**	**16,170**	**124,343**
Accumulated amortization				
As at 01/01/2017	**(84,901)**	**(14,729)**	**(13,038)**	**(112,668)**
Currency translation adjustment	10,279	14	0	**10,293**
Amortization	0	(1,216)	(453)	**(1,669)**
Impairment	0	0	(221)	**(221)**
Disposals	0	282	0	**282**
As at 31/12/2017	**(74,622)**	**(15,649)**	**(13,711)**	**(103,982)**
Carrying amount 01/01/2017	13,363	2,541	2,395	**18,298**
Carrying amount 31/12/2017	**13,676**	**4,226**	**2,459**	**20,361**

Development of intangible assets (previous year) **EUR '000**

2016	Goodwill	Concessions, industrial property rights, licenses and similar rights	Internally generated intangible assets	Total
Cost				
As at 01/01/2016	**95,549**	**15,701**	**14,677**	**125,927**
Currency translation adjustment	2,714	(18)	0	**2,696**
Additions	0	1,600	756	**2,356**
Disposals	0	(13)	0	**(13)**
As at 31/12/2016	**98,263**	**17,270**	**15,433**	**130,966**
Accumulated amortization				
As at 01/01/2016	**(81,909)**	**(14,000)**	**(11,783)**	**(107,693)**
Currency translation adjustment	(2,992)	16	0	**(2,976)**
Amortization	0	(752)	(490)	**(1,242)**
Impairment	0	0	(765)	**(765)**
Disposals	0	7	0	**7**
As at 31/12/2016	**(84,901)**	**(14,729)**	**(13,038)**	**(112,668)**
Carrying amount 01/01/2016	13,640	1,701	2,894	**18,234**
Carrying amount 31/12/2016	**13,363**	**2,541**	**2,395**	**18,298**

The above additions to internally generated intangible assets include EUR 737 thousand (2016: EUR 756 thousand) which were developed in the Lenzing Group. All other additions represent purchased intangible assets.

The revaluation option was not exercised. Amortization is calculated according to the straight line method based on the estimated useful lives. The estimated useful lives of the major assets are as follows:

Useful lives for intangible assets

	Years
Software/computer programs	3 to 4
Licenses and other intangible assets	
Purchased	4 to 25
Internally generated	7 to 15

Research and development expenses

The Lenzing Group incurred research and development expenses (calculated in accordance with IFRS) of EUR 28,282 thousand in 2017 (2016: EUR 25,520 thousand). The development costs for internally generated intangible assets are capitalized if they meet the criteria defined by IAS 38 (Intangible Assets).

Impairment tests of intangible assets and property, plant and equipment

All intangible assets, items of property, plant and equipment and cash-generating units are tested for impairment in accordance with IAS 36 if evidence suggests they may be impaired. A qualitative analysis is performed at the reporting dates for all consolidated financial statements and interim consolidated statements to determine whether there are any indications of impairment or any material year-on-year changes in impaired cash-generating units. This analysis is based on criteria defined by the management of Lenzing AG. Intangible assets and property, plant and equipment allocated to a cash-generating unit that includes goodwill are also tested during the annual impairment testing of goodwill. The cash-generating units in the Lenzing Group represent, above all, the individual production sites.

The Lenzing Group initially determines the recoverable amount based on the applicable fair value less costs of disposal. The fair value less costs of disposal is derived from budgets and cash flow forecasts which are prepared on a post-tax basis and approved by the Management Board for the next five years. Based on the assumptions used in the previous year, a perpetual yield that includes a sustainable long-term growth rate of 0.9 percent to 1.2 percent (2016: 0.8 percent) is applied after the detailed planning period. The estimate for the sustainable long-term growth rate generally equals half of the inflation rate expected in the relevant country during the next few years, as projected by an international economic research agency. This value usually tends to offset general inflation. The planned/projected cash flows are discounted to their present value with a discounted cash flow method. Fair value measurement is classified in full as level 3 of the fair value hierarchy because key input factors (in particular, cash flows) cannot be observed on the market. The applied discount rate is calculated on an individual basis using the capital asset pricing model (CAPM) and represents a composite figure (weighted average cost of capital – WACC) that combines the average interest rate for debt and the anticipated return on equity employed. After-tax WACCs ranging from 7.0 percent to 8.0 percent were used in 2017 (2016: 7.2 percent to 8.1 percent).

The WACCs were, for the most part, determined on the basis of externally available capital market data for comparable companies (in particular, to determine the risk premium). The planning and forecasts for free cash flows are based, above all, on internal and external assumptions for the expected development of selling prices and volumes (especially for fibers and cellulose) and the related costs (in particular, raw materials like cellulose, wood and energy plus labor and taxes), including the expected market environment and market positioning. Other input factors include anticipated investments and the changes in working capital. These internal assumptions are based on past experience, current operating results and the assessment of future developments. They are supplemented by external market assumptions such as sector-specific market studies and economic outlooks.

Impairment of cash-generating units

There were no indications of impairment, as defined by IAS 36, to cash-generating units in 2017 or 2016. In addition, there were no material changes in the impaired cash-generating units compared with the respective previous year.

The carrying amounts of the intangible assets and property, plant and equipment impaired at the Chinese production site in previous years totaled EUR 46,991 thousand as at December 31, 2017 (December 31, 2016: 56,408 thousand). This amount includes accumulated impairment losses of EUR 31,311 thousand (December 31, 2016: 39,934 thousand) from the previous impairment tests.

Goodwill and trademark rights with indefinite useful lives

Goodwill was allocated to the following segments/cash-generating units (CGUs) as at the reporting date:

Goodwill by segment/CGU EUR '000

	31/12/2017	31/12/2016
Segment Fibers		
CGU Pulp Site Czech Republic	10,343	9,774
Other CGUs	3,333	3,589
Total	**13,676**	**13,363**

The recoverable amount of the largest CGU with goodwill – the CGU Pulp Site Czech Republic – in 2017 was determined on the basis of fair value less costs of disposal. The measurement of fair value is classified in full under level 3 of the fair value hierarchy, since key input factors (in particular, cash flows) cannot be observed on the market.

The following individual assumptions used in recent impairment tests were also relevant.

The amounts shown for the major assumptions represent the Management Board's estimates for future development:

Assumptions for impairment testing of the largest CGU to which goodwill was allocated

	2017 financial year	2016 financial year
CGU Pulp Site Czech Republic		
Average annual operating margin in planning period	18.4%	21.1%
Long-term growth rate of perpetual yield	0.9%	0.8%
After-tax discount rate (WACC)	8.0%	7.3%

The detailed planning period for the CGU Pulp Site Czech Republic covers five years. The average revenue growth during this period equals 1.9 percent per year (2016: minus 1.3 percent per year).

The estimated fair value less costs of disposal of the CGU Pulp Site Czech Republic exceeds the carrying amount by EUR 75,534 thousand (2016: EUR 59,457 thousand). This estimate is considered appropriate, but corrections may be required if there are changes in the underlying assumptions or circumstances. The following table shows a sensitivity analysis with hypothetical scenarios for the key assumptions as well as the possible changes in value as at the reporting date which, if they occurred, would result in the recoverable amount equaling the carrying amount of the CGU plus goodwill.

Sensitivity analysis of assumptions for impairment testing

	Values relating to key assumptions	Change in values relating to key assumptions for which the recoverable amount would equal the carrying amount
CGU Pulp Site Czech Republic		
Operating margin	18.4%	minus 3.8 percentage points
Long-term growth rate of perpetual yield	0.9%	minus 3.8 percentage points
After-tax discount rate (WACC)	8.0%	plus 2.4 percentage points

Sensitivity analysis of assumptions for impairment testing (previous year)

	Values relating to key assumptions	Change in values relating to key assumptions for which the recoverable amount would equal the carrying amount
CGU Pulp Site Czech Republic		
Operating margin	21.1%	minus 2.3 percentage points
Long-term growth rate of perpetual yield	0.8%	minus 3.7 percentage points
After-tax discount rate (WACC)	7.3%	plus 2.3 percentage points

Note 19. Property, plant and equipment

Development

Property, plant and equipment developed as follows:

Development of property, plant and equipment — EUR '000

2017	Land and buildings	Technical equipment and machinery, factory and office equipment	Prepayments and assets under construction	Total
Cost				
As at 01/01/2017	**531,845**	**2,508,578**	**76,098**	**3,116,521**
Currency translation adjustment	(13,184)	(61,606)	(3,761)	**(78,551)**
Additions	26,551	51,170	176,981	**254,702**
Disposals	(819)	(10,771)	0	**(11,590)**
Reclassifications	2,368	43,686	(46,054)	**0**
As at 31/12/2017	**546,760**	**2,531,057**	**203,264**	**3,281,082**
Accumulated depreciation				
As at 01/01/2017	**(258,880)**	**(1,574,905)**	**(3,829)**	**(1,837,614)**
Currency translation adjustment	5,151	40,293	246	**45,690**
Depreciation	(15,681)	(116,981)	0	**(132,662)**
Impairment	0	0	0	**0**
Disposals	276	10,425	0	**10,702**
As at 31/12/2017	**(269,133)**	**(1,641,168)**	**(3,583)**	**(1,913,884)**
Carrying amount 01/01/2017	272,966	933,672	72,269	**1,278,907**
Carrying amount 31/12/2017	**277,627**	**889,889**	**199,681**	**1,367,197**

Development of property, plant and equipment (previous year) EUR '000

2016	Land and buildings	Technical equipment and machinery, factory and office equipment	Prepayments and assets under construction	Total
Cost				
As at 01/01/2016	**524,305**	**2,437,860**	**36,901**	**2,999,065**
Currency translation adjustment	1,536	9,328	537	**11,402**
Changes in the scope of consolidation and disposal of other business areas	0	(1,866)	0	**(1,866)**
Additions	4,111	55,296	57,086	**116,493**
Disposals	(72)	(4,895)	(3,606)	**(8,573)**
Reclassifications	1,965	12,855	(14,820)	**0**
As at 31/12/2016	**531,845**	**2,508,578**	**76,098**	**3,116,521**
Accumulated depreciation				
As at 01/01/2016	**(244,478)**	**(1,456,356)**	**(3,781)**	**(1,704,615)**
Currency translation adjustment	698	(6,610)	(48)	**(5,960)**
Changes in the scope of consolidation and disposal of other business areas	0	1,482	0	**1,482**
Depreciation	(15,100)	(116,486)	0	**(131,586)**
Impairment	0	(1,500)	0	**(1,500)**
Disposals	0	4,565	0	**4,565**
As at 31/12/2016	**(258,880)**	**(1,574,905)**	**(3,829)**	**(1,837,614)**
Carrying amount 01/01/2016	279,827	981,504	33,120	**1,294,451**
Carrying amount 31/12/2016	**272,966**	**933,672**	**72,269**	**1,278,907**

The revaluation option was not exercised.

Depreciation is calculated according to the straight-line method based on the estimated useful lives. The estimated useful lives of the major assets are as follows:

Useful lives for property, plant and equipment

	Years
Land use rights	30 to 99
Buildings	10 to 50
Fiber production lines	10 to 15
Energy production facilities	10 to 25
Other mechanical equipment	4 to 20
Vehicles	4 to 20
Office equipment and other fixtures and fittings	4 to 15
IT hardware	3 to 10

All items of property, plant and equipment are tested for impairment in accordance with IAS 36 if there are any indications that these assets may be impaired (see note 18 for details).

Pledges of property, plant and equipment and other collateral security or restrictions on title encumbering property, plant and equipment

Property, plant and equipment also include assets obtained through finance leases (see note 38). Collateral security in the form of property, plant and equipment has also been provided for Group borrowings (see note 29). The carrying amount of property, plant and equipment pledged to secure financial liabilities totaled EUR 215,607 thousand (December 31, 2016: EUR 252,617 thousand).

Capitalization of borrowing costs

Borrowing costs of EUR 1,592 thousand for property, plant and equipment were capitalized in 2017 (2016: EUR 454 thousand). The applied cost of debt equaled 2.5 percent (2016: 2.5 percent).

The Lenzing Group defines qualifying assets as construction projects or other assets that require at least twelve months to be ready for their intended use or sale. The required entries are recorded under “own work capitalized“ and the respective asset account, while depreciation is recorded under “amortization of intangible assets and depreciation of property, plant and equipment“. All other borrowing costs are expenses in the period incurred and reported under financial result.

Note 20. Investments accounted for using the equity method

Investments accounted for using the equity method include, in particular, EQUI-Fibres Beteiligungsgesellschaft mbH (EFB), Kelheim, Germany, which is assigned to the Segment Fibers. Investments accounted for using the equity method comprise the following:

Carrying amounts of investments accounted for using the equity method EUR '000

	31/12/2017	31/12/2016
EQUI-Fibres Beteiligungsgesellschaft mbH (EFB)	2,871	7,028
Other associates	5,463	5,630
Joint ventures	88	79
Total	**8,422**	**12,737**

Investments accounted for using the equity method developed as follows:

Development of the carrying amounts of investments accounted for using the equity method EUR '000

2017	EFB	Other associates	Joint ventures	Total
As at 01/01	**7,028**	**5,630**	**79**	**12,737**
Disposal of carrying amount due to the partial divestiture of the investment	0	0	0	0
Result from remeasurement of investments accounted for using the equity method	0	0	0	0
Share in profit or loss of investments accounted for using the equity method	854	121	8	983
Other comprehensive income – remeasurement of defined benefit liability and other	(12)	0	0	(12)
Other comprehensive income – foreign currency translation differences arising during the year	0	(247)	1	(246)
Distributions	(5,000)	(40)	0	(5,040)
As at 31/12	**2,871**	**5,463**	**88**	**8,422**

Development of the carrying amounts of investments accounted for using the equity method (previous year) EUR '000

2016	EFB	Other associates	Joint ventures	Total
As at 01/01	**19,972**	**5,523**	**73**	**25,568**
Disposal of carrying amount due to the partial divestiture of the investment	(12,352)	0	0	(12,352)
Result from remeasurement of investments accounted for using the equity method	(2,646)	0	0	(2,646)
Share in profit or loss of investments accounted for using the equity method	2,472	31	6	2,509
Other comprehensive income – remeasurement of defined benefit liability and other	(419)	0	0	(419)
Other comprehensive income – foreign currency translation differences arising during the year	0	117	0	117
Distributions	0	(40)	0	(40)
As at 31/12	**7,028**	**5,630**	**79**	**12,737**

The above components of total comprehensive income result from continuing operations.

In December 2016 the Lenzing Group recorded a gain of EUR 14,605 thousand on the partial sale of EQUI-Fibres Beteiligungsgesellschaft mbH. This gain on sale includes EUR minus 2,646 thousand from the fair value measurement of the remaining shares, whereby the fair value was derived from the current sale transaction (level 1). As security for the outstanding purchase price receivable (EUR 30,952 thousand), which is dependent on the company's future earning power, the Lenzing Group holds a lien on the remaining shares. Most of the purchase price receivables are classified as current. The long-term component carries interest at a normal bank interest rate.

In December 2017, a subsequent gain of EUR 3,037 thousand was realized on the partial sale of EFB. The outstanding purchase price receivables and non-current loans due from the buyer (and its subsidiaries) totaled EUR 13,028 thousand as at December 31, 2017 and are reported under financial assets. They carry standard bank interest rates and their collectability was determined, in particular, on the basis of the buyer's financial position. The Lenzing Group holds a lien on the remaining EFB shares. The non-current earnings-related component of the purchase price is dependent on the company's future business development and is reported under other non-current assets at the discounted present value of EUR 4,371 thousand as at December 31, 2017 (December 31, 2016: EUR 3,724 thousand). Moreover, the buyer was granted a credit line of up to EUR 19,486 thousand, which can be utilized up to December 31, 2025 at the latest in the event of adverse changes in the framework conditions for EFB on the market. The credit line had not been used as at December 31, 2017.

The Lenzing Group held 20 percent of capital and voting rights as at December 31, 2017 (December 31, 2016: 20 percent). The core business of EFB, which is not publicly listed, is the production and marketing of botanic cellulose fibers. The relations between the Lenzing Group and this company are described in note 40.

The following table provides summarized financial information on EFB in accordance with IFRS (all amounts at 100 percent, i.e. not adjusted to reflect the investment held by the Lenzing Group and before intragroup eliminations and adjustments):

Summarized financial information on EFB — **EUR '000**

	31/12/2017	31/12/2016
Non-current assets	85,829	87,195
Current assets	59,572	55,916
Equity	27,899	48,686
Non-current liabilities	58,622	41,440
Current liabilities	58,881	52,986
	2017	**2016**
Revenue	182,046	168,441
Earnings before tax (EBT)	6,693	7,881
Total comprehensive income	4,213	4,564
Thereof net profit for the year (from continuing operations)	4,272	5,494
Thereof other comprehensive income (from continuing operations)	(60)	(930)

The reconciliation of equity to the carrying amount of the investment in EFB is as follows:

Reconciliation of equity to carrying amount of the investment in EFB — **EUR '000**

	31/12/2017	31/12/2016
Equity	27,899	48,686
Thereof:		
Group's interest (20 %; previous year: 20 %)	5,580	9,737
Consolidation and other effects	(2,709)	(2,709)
Carrying amount	**2,871**	**7,028**

Investments accounted for using the equity method represent investments in associates and joint ventures. The investments in associates represent shares in companies in which the Lenzing Group can exert significant influence over financial and operating policies. Joint ventures are joint arrangements managed by the Lenzing Group together with one or more partners, whereby the Lenzing Group has rights to the net assets of the arrangement.

Note 21. Financial assets

Financial assets comprise the following:

Financial assets		EUR '000
	31/12/2017	31/12/2016
Non-current securities	18,785	16,167
Other equity investments	1,562	1,562
Originated loans	16,095	7,339
Total	**36,442**	**25,068**

Non-current securities are classified as follows:

Non-current securities by asset class		EUR '000
	Market value 31/12/2017	Market value 31/12/2016
Government bonds	5,579	6,128
Other securities and book-entry securities	13,206	10,039
Total	**18,785**	**16,167**

The major holdings in government bonds include EUR 1,965 thousand (December 31, 2016: EUR 2,021 thousand) issued by the Federal Republic of Germany, EUR 1,224 thousand (December 31, 2016: EUR 1,248 thousand) issued by the Netherlands and EUR 1,394 thousand (December 31, 2016: EUR 1,839 thousand) issued by the Republic of France. The other securities and book-entry securities relate primarily to shares. The other equity investments as at December 31, 2017 consist primarily of the EUR 1,050 thousand (December 31, 2016: TEUR 1,050 thousand) investment in LP Beteiligungs & Management GmbH, Linz.

Note 22. Other non-current assets

Other non-current assets are classified as follows:

Other non-current assets		EUR '000
	31/12/2017	31/12/2016
Other non-current financial assets (particularly from derivatives and other financial receivables)	5,365	7,659
Other non-current non-financial assets (particularly from other taxes)	3,568	1,928
Total	**8,933**	**9,587**

Note 23. Inventories

Inventories include the following components:

Inventories		EUR '000
	31/12/2017	31/12/2016
Raw materials and supplies	209,400	211,440
Work in progress	2,503	2,445
Finished goods and merchandise	122,658	110,649
Prepayments	5,495	4,896
Total	**340,056**	**329,430**

Raw materials and supplies consist primarily of wood for pulp production, pulp and chemicals for cellulose fiber production and various incidentals. Finished goods and work in progress include cellulose fibers, sodium sulfate, acetic acid, furfural and products in the Segment Lenzing Technik.

Write-downs totaling EUR 4,383 thousand were recognized to inventories in 2017 (2016: EUR 8,190 thousand). The carrying amount of inventories measured at their net realizable value equaled EUR 155,395 thousand (December 31, 2016: EUR 92,211 thousand). Expenses for inventories are generally included in the cost of material. Inventories included in the cost of material totaled EUR 1,112,348 thousand (2016: EUR 1,078,102 thousand). The carrying amount of inventories pledged to secure financial liabilities amounted to EUR 88,102 thousand (December 31, 2016: EUR 100,958 thousand). Of the total inventories, EUR 28,060 thousand (2016: EUR 26,854 thousand) are expected to be held for more than one year.

Note 24. Trade receivables

Trade receivables comprise the following:

Trade receivables		EUR '000
	31/12/2017	31/12/2016
Trade receivables (gross)	304,654	289,416
Bad debt provisions	(11,884)	(12,008)
Total	**292,770**	**277,407**

All trade receivables are classified as current assets. Additional information on trade receivables is provided in note 35 ("Factoring") and note 37 ("Credit risk").

Note 25. Construction contracts

Construction contracts		EUR '000
	31/12/2017	31/12/2016
Contract costs incurred by the reporting date	1,302	1,930
Profits accrued by the reporting date	347	341
Losses incurred by the reporting date	0	(12)
Balance from contract manufacturing (gross)	**1,649**	**2,259**
Less advances received (total)	(2,007)	(5,552)
Balance from contract manufacturing (net)	**(358)**	**(3,293)**
Thereof gross amount due from customers for contract work (trade receivables)	418	865
Thereof gross amount due to customers for contract work (other current liabilities)	(776)	(4,158)

If the result of a construction contract can be reliably estimated, the revenue and costs are recognized in line with the stage of completion at the reporting date (percentage-of-completion method). The percentage of completion is calculated on an input-oriented basis which compares the contract costs incurred to date with the estimated total contract costs (cost-to-cost method).

Note 26. Other current assets

Other current assets comprise the following:

Other current assets		EUR '000
	31/12/2017	31/12/2016
Other current financial assets		
Derivatives not yet settled (open positions)	12,370	1,371
Receivables relating to the divestiture of an investment	1,385	24,699
Amount from factoring agreements not advanced	0	8,065
Creditors with debit balances	4,727	4,265
Recharging of maintenance services	5,640	4,500
Receivables from grant commitments	3,584	5,200
Other	6,960	6,481
Total	**34,665**	**54,580**
Other current non-financial assets		
Receivables from other taxes	59,211	37,763
Emission certificates	6,823	6,446
Prepaid expenses	4,017	3,675
Other	2,845	2,589
Total	**72,896**	**50,473**
Total	**107,562**	**105,053**

Note 27. Equity

Share capital and capital reserves

The share capital of Lenzing AG totaled EUR 27,574,071.43 as at December 31, 2017 (December 31, 2016: EUR 27,574,071.43) and is divided into 26,550,000 zero par value shares (December 31, 2016: 26,550,000 shares). The proportion of share capital attributable to one share equals roughly EUR 1.04. Each ordinary share represents an equal interest in capital and conveys the same rights and obligations, above all the right to a resolved dividend and the right to vote at the Annual General Meeting. The issue price of the shares is fully paid in. No other classes of shares have been issued.

The Annual General Meeting on April 28, 2014 authorized the Management Board, subject to the approval of the Supervisory Board, to repurchase the company's bearer shares over the stock exchange to the extent of up to 10 percent of the company's share capital. This authorization is valid for a period of 30 months beginning on April 28, 2014. The lowest equivalent repurchase price was defined as not more than 20 percent below and the highest equivalent not more than 10 percent above the average closing price on the last three stock exchange days prior to the share purchase. The resolution excludes trading in treasury shares as an objective of the repurchase. This authorization can be exercised in whole, in part or in several partial amounts and in pursuit of one or more objectives by the company, by a subsidiary (Section 189a no. 7 of the Austrian Commercial Code) or by third parties for the company's account. In addition, the Management Board was authorized to reduce share capital, if necessary, by withdrawing these treasury shares without any further resolution by the Annual General Meeting. The Supervisory Board was authorized to adopt any necessary amendments to the articles of association resulting from the withdrawal of shares. This authorization was not used and expired on October 28, 2016.

The Annual General Meeting on April 22, 2015 authorized the Management Board, subject to the approval of the Supervisory Board, to increase share capital by up to EUR 13,778,412 through the issue of up to 13,274,000 zero par value shares ("authorized capital") – also in several tranches – in exchange for cash and/or contributions in kind. This authorized capital was recorded in the commercial register on May 26, 2016.

The Annual General Meeting on April 22, 2015 also authorized the Management Board, subject to the approval of the Supervisory Board, to issue convertible bonds by April 22, 2020 – also in several tranches – which provide or allow for subscription or conversion rights or mandatory subscription or conversion into a maximum of 13,274,000 shares ("contingent capital"). The subscription or conversion rights/obligations may be serviced by contingent capital and/or treasury shares.

The Annual General Meeting on April 20, 2016 authorized the Management Board, subject to the approval of the Supervisory Board, to repurchase the company's bearer shares over the stock exchange to the extent of up to 10 percent of the company's share capital. This authorization is valid for a period of 30 months beginning on April 20, 2016. The lowest equivalent repurchase price was defined as not more than 20 percent below and the highest equivalent not more than 10 percent above the average closing price on the last three stock exchange days prior to the share purchase. The resolution excludes trading in treasury shares as an objective of the repurchase. This authorization can be exercised in whole, in part or in several partial amounts and in pursuit of one or several objectives by the company, by a subsidiary (Section 189a no. 7 of the Austrian Commercial Code) or by third parties for the company's account. In addition, the Management Board was authorized to reduce share capital, if necessary, by withdrawing these treasury shares without any further resolution by the Annual General Meeting. The Supervisory Board was authorized to adopt any necessary amendments to the articles of association resulting from the withdrawal of shares.

The Management Board did not utilize the authorizations in place on or up to December 31, 2017 to increase share capital, issue convertible bonds or repurchase treasury shares during the 2017 financial year.

The capital reserves represent appropriated reserves of Lenzing AG that may only be used to offset an accumulated loss by Lenzing AG. These reserves were created from the inflow of funds received by Lenzing AG from shareholders in excess of share capital.

Other reserves

Other reserves include all accumulated other comprehensive income and consist of the foreign currency translation reserve, the reserve for available-for-sale financial assets, the hedging reserve and actuarial gains/losses.

The amounts attributable to the components of other comprehensive income in 2017 and 2016 include the following:

Other comprehensive income EUR '000

	2017			2016		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Consolidated subsidiaries	(42,263)	0	(42,263)	4,478	8	4,486
Investments accounted for using the equity method	(246)	0	(246)	117	0	117
Foreign currency translation reserve	**(42,509)**	**0**	**(42,509)**	**4,595**	**8**	**4,602**
Available-for-sale financial assets	**2,718**	**(680)**	**2,039**	**1,189**	**(297)**	**892**
Consolidated subsidiaries	12,960	(2,903)	10,057	(4,617)	1,020	(3,597)
Investments accounted for using the equity method	0	0	0	0	0	0
Hedging reserve	**12,960**	**(2,903)**	**10,057**	**(4,617)**	**1,020**	**(3,597)**
Consolidated subsidiaries	1,267	(304)	962	(11,364)	2,903	(8,461)
Investments accounted for using the equity method	(12)	0	(12)	(419)	0	(419)
Actuarial gains/losses	**1,255**	**(304)**	**950**	**(11,783)**	**2,903**	**(8,880)**
Total	**(25,576)**	**(3,887)**	**(29,463)**	**(10,616)**	**3,633**	**(6,982)**

The reserve for hedging cash flows (hedging reserve) developed as follows:

Changes in the hedging reserve EUR '000

	2017	2016
Gains/losses recognized in the reporting period from the valuation of cash flow hedges		
From gas swaps	0	(51)
From forward foreign exchange contracts	21,493	(9,666)
	21,493	**(9,717)**
Reclassification to profit or loss of amounts relating to cash flow hedges		
From gas swaps	0	980
From forward foreign exchange contracts	(8,718)	3,935
From other derivatives	185	185
	(8,533)	**5,101**
Total	**12,960**	**(4,617)**

The above amounts from the reclassification to profit or loss of cash flow hedges from gas swaps are reported under the cost of material. The above amounts from the reclassification to profit or loss of cash flow hedges from forward foreign exchange contracts are reported primarily under revenue as part of earnings before interest and tax (EBIT). The above amounts from the reclassification to profit or loss of cash flow hedges from other derivatives are reported under financial result.

Retained earnings

Retained earnings comprise the following:

Retained earnings EUR '000

	31/12/2017	31/12/2016
Unappropriated revenue reserves of Lenzing AG under Austrian law (Austrian Commercial Code – öUGB)	470,809	451,594
Share-based payments	0	1,176
Accumulated profits of Lenzing AG under Austrian law (Austrian Commercial Code – öUGB)	132,750	111,510
Retained earnings of the subsidiaries, including the effect of adjusting the financial statements of Lenzing AG and its subsidiaries from local regulations to IFRS	712,876	586,863
Total (excl. other reserves)	**1,316,434**	**1,151,143**

The unappropriated revenue reserves of Lenzing AG can be released at any time and distributed to shareholders as part of accumulated profits. Austrian law only permits the distribution of dividends from accumulated profits as stated in the approved annual financial statements of the parent company prepared in accordance with the Austrian Commercial Code.

The following dividends were approved by the Annual General Meeting and paid to the shareholders of Lenzing AG:

Dividends of Lenzing AG resolved and paid	Total	Number of shares	Dividend per share
	EUR '000		EUR
Dividend for the financial year 2016 resolved at the Annual Shareholders' Meeting on April 25, 2017 (payment as of May 2, 2017)	111,510	26,550,000	4.20
Dividend for the financial year 2015 resolved at the Annual Shareholders' Meeting on April 20, 2016 (payment as of April 26, 2016)	53,100	26,550,000	2.00

The Management Board proposes the following use of accumulated profits for 2017 as stated in the annual financial statements of Lenzing AG, which were prepared in accordance with the Austrian Commercial Code:

Proposal on the appropriation of accumulated profits for 2017	EUR '000
Lenzing AG closed the 2017 financial year with profit under Austrian law (öUGB) of	151,965
The allocation to (unappropriated) revenue reserves of	(19,215)
results in accumulated profit of	**132,750**
The Management Board proposes the following appropriation of the accumulated profit:	
Distribution of a EUR 5.00 dividend per share on eligible share capital of EUR 27,574,071.43 or 26,550,000 shares	132,750
Amount carried forward to new account	**0**

The dividend shown in the above proposal is subject to approval by the shareholders at the Annual General Meeting and is therefore still included in equity as at the reporting date. Dividends in Austria are subject to a capital gains tax of 27.5 percent (see the above table for the applicable amounts). The capital gains tax satisfies the income tax liability for individuals with unlimited tax liability in Austria (final taxation). For corporations with unlimited tax liability, profit distributions by Lenzing AG represent tax-free investment income. Corporations with unlimited tax liability that hold at least 10 percent of share capital are exempt from capital gains tax in Austria. Corporations with unlimited tax liability that hold less than 10 percent of share capital can offset the deducted capital gains tax on their corporate tax return. Foreign EU companies with unlimited tax liability that have held at least 10 percent of the share capital for at least one year without interruption are not liable for capital gains tax if additional requirements are met. Retained profits are not taxable for shareholders in Austria. Shareholders with limited tax liability must also consider any applicable double taxation agreements.

Non-controlling interests

Non-controlling interests represent the investments held by third parties in consolidated group companies. The group companies with non-controlling interests are listed in note 43 under "Consolidated companies". These are companies in which the Lenzing Group holds a share of less than 100 percent and which are not reported under puttable non-controlling interests.

Non-controlling interests in equity included, above all, PT South Pacific Viscose (SPV), Purwakarta, Indonesia, which is assigned to the Segment Fibers. The non-controlling interests in SPV totaled EUR 31,019 thousand as at December 31, 2017 (December 31, 2016: EUR 31,878 thousand). As at December 31, 2017, non-controlling shareholders held 11.92 percent (December 31, 2016: 11.92 percent) of the capital and voting rights in SPV, which is not publicly listed. The core business of SPV is the production and sale of botanic cellulose fibers.

The following table provides summarized financial information on SPV in accordance with IFRS (all amounts at 100 percent, i.e. not adjusted to reflect the investment held by the Lenzing Group and before intragroup eliminations and adjustments):

Summarized financial information on SPV		EUR '000
	31/12/2017	31/12/2016
Non-current assets	224,687	259,997
Current assets	173,201	209,468
Equity	260,226	267,429
Thereof equity attributable to shareholders of Lenzing AG	229,207	235,552
Thereof equity attributable to non-controlling interests	31,019	31,878
Non-current liabilities	44,134	69,532
Current liabilities	93,528	132,504
	2017	**2016**
Revenue	499,943	493,901
Earnings before tax (EBT)	41,011	45,055
Total comprehensive income	(6,350)	42,706
Thereof net profit for the year	29,937	33,045
Net profit for the year attributable to shareholders of Lenzing AG	26,369	29,106
Net profit for the year attributable to non-controlling interests	3,569	3,939
Thereof other comprehensive income	(36,287)	9,662
Other comprehensive income attributable to shareholders of Lenzing AG	(31,962)	8,510
Other comprehensive income attributable to non-controlling interests	(4,325)	1,152
Cash flow from operating activities	34,087	78,783
Cash flow from investing activities	(20,568)	(9,945)
Cash flow from financing activities	(21,994)	(23,198)
Change in cash and cash equivalents	(8,476)	45,640
Dividends paid to non-controlling interests	102	0

Changes to the non-controlling interests in controlled subsidiaries due to the purchase or sale of shares by the Lenzing Group without the loss of control are reported on the consolidated statement of changes in equity. The effects on non-controlling interests are shown below:

Effects of the acquisition and disposal of further shares in controlled subsidiaries — EUR '000

	2017	2016
Lenzing Modi Fibers India Private Limited (2017: +0.01 %, 2016: +0.02 %)	1	2
Increase (+)/decrease (–) of non-controlling interests in equity	**1**	**2**

The following shares of other comprehensive income are attributable to non-controlling interests in the subsidiaries of Lenzing AG:

Other comprehensive income attributable to non-controlling interests — EUR '000

	2017	2016
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of net liability from defined benefit plans	(190)	(88)
Income tax relating to these components of other comprehensive income	47	22
Items that may be reclassified to profit or loss		
Foreign operations – foreign currency translation differences arising during the year	(4,197)	1,220
Other comprehensive income – net of tax	**(4,340)**	**1,154**

Note 28. Government grants

The amount accrued under this item resulted primarily from grants for the promotion of investments in economically underdeveloped regions, for investments in environmental protection and for general investment support.

Government grants of EUR 7,197 thousand were recognized to profit or loss in 2017 (2016: EUR 6,841 thousand). These grants were focused primarily on support for research activities. Any conditions attached to the grants were fulfilled and repayment, in full or in part, is therefore considered unlikely.

Government grants also included EUR 5,093 thousand of emission certificates as at December 31, 2017 (December 31, 2016: EUR 4,907 thousand). In accordance with Directive 2003/87/EC of the European Parliament and the European Council on a system for trading greenhouse gas emission certificates, a total of 402,651 emission certificates were allocated free of charge to the relevant companies in the Lenzing Group for 2017 through national allocation plans (2016: 411,118 emission certificates).

Emission certificates are capitalized at fair value on the allocation date. The difference between the fair value and the purchase price paid by the company for the emission certificates is recorded under government grants. At the end of each reporting period, a provision is recognized for the certificates used up to that date. The amount of the provision is based on the recognized asset value of the certificates if they are covered by certificates held by the company at this reporting date. If the certificates used exceed the certificates held, the provision is based on the fair value of the certificates (to be purchased subsequently) as at the relevant reporting date. A provision of EUR 208 thousand was recognized as at December 31, 2017 for the insufficient coverage of emission certificates (December 31, 2016: EUR 314 thousand).

Note 29. Financial liabilities

The following table shows the composition of financial liabilities as at December 31:

Financial liabilities				EUR '000
31/12/2017	**Currency**	**Nominal value**	**Carrying amount**	**Average effective interest in %**
Private placements				
Fixed interest	EUR	173,500	173,195	2.6
Floating rate interest	EUR	75,500	75,373	1.2
			248,568	
Liabilities to banks				
Loans:				
Fixed interest	EUR	0	0	0.0
Floating rate interest	EUR	37,397	37,350	1.3
Floating rate interest	USD	23,333	19,354	3.5
Operating loans[1]:				
Floating rate interest	USD	0	0	0.0
Floating rate interest	CNY	320,000	41,003	4.5
			97,707	
Lease liabilities				
Fixed interest	EUR	1,852	1,852	4.0
Floating rate interest	EUR	0	0	0.0
			1,852	
Liabilities to other lenders (miscellaneous)				
Fixed interest	EUR	7,820	7,820	0.8
Fixed and floating rate interest	EUR	24,210	24,210	0.6
Floating-rate interest	USD	2,930	2,443	3.7
			34,473	
Total			**382,599**	
Thereof current			127,270	
Thereof non-current			255,330	

1) Revolving credit agreements and overdrafts

Financial liabilities				EUR '000
31/12/2016	**Currency**	**Nominal value**	**Carrying amount**	**Average effective interest in %**
Bond				
Fixed interest	EUR	120,000	119,922	3.9
			119,922	
Private placements				
Fixed interest	EUR	173,500	173,115	2.5
Floating rate interest	EUR	75,500	75,342	1.2
			248,457	
Liabilities to banks				
Loans:				
Fixed interest	EUR	899	899	1.2
Floating rate interest	EUR	75,453	75,312	1.4
Floating rate interest	USD	46,667	43,929	3.0
Operating loans[1]:				
Floating rate interest	USD	17,568	16,648	2.8
Floating rate interest	CNY	320,000	43,715	4.5
			180,504	
Lease liabilities				
Fixed interest	EUR	699	699	4.0
Floating rate interest	EUR	2,056	2,056	2.4
			2,756	
Liabilities to other lenders (miscellaneous)				
Fixed interest	EUR	6,617	6,617	1.0
Fixed and floating rate interest	EUR	16,575	16,575	0.8
Floating-rate interest	USD	2,828	2,683	3.7
			25,875	
Total			**577,513**	
Thereof current			249,247	
Thereof non-current			328,266	

1) Revolving credit agreements and overdrafts

In the 2010 financial year, the Lenzing Group issued a seven-year bond with a fixed interest rate of 3.875 percent and a nominal value of EUR 120,000 thousand. This bond matured on September 27, 2017.

In the 2012 financial year, the Lenzing Group issued private placements with an issue volume of EUR 200,000 thousand. The terms cover four and seven years with fixed and floating interest rates, respectively, as well as a term of ten years with fixed interest. The average term is approximately six years. In the 2013 financial year, the Lenzing Group issued further private placements with an issue volume of EUR 29,000 thousand and a five-year term with fixed interest.

The Lenzing Group repaid EUR 40,500 thousand of the existing private placements as scheduled in 2016. In the 2015 financial year, the Lenzing Group reached an agreement to refinance its private placements with a corresponding volume increase. Existing private placements of EUR 89,500 thousand were terminated and re-issued at extended terms. Additional private placements of EUR 60,500 thousand were also issued. These transactions involved the issue of private placements totaling EUR 150,000 thousand, which have an average term of seven years.

The next interest rate adjustment for the floating rate loans and partially fixed rate loans will take place within the next six months, depending on the loan agreement. The conditions for loans that can be utilized multiple times (revolving loans) are fixed for a certain period and generally carry floating interest rates.

Other loans primarily involve obligations to the Austrian fund for the promotion of research in industry ("Forschungsförderungsfonds der gewerblichen Wirtschaft") and the ERP fund as well as loans from non-controlling shareholders.

Of the total reported financial liabilities, EUR 19,456 thousand (December 31, 2016: EUR 44,272 thousand) are collateralized by real estate liens and other security and EUR 0 thousand (December 31, 2016: TEUR 10,575 thousand) are collateralized by receivables. Shares in Biocel Paskov a.s. were pledged to finance the purchase price for the investment in this company and to finance investments.

Note 30. Deferred taxes (deferred tax assets and liabilities) and current taxes

Deferred tax assets and liabilities relate to the following items on the statement of financial position:

Deferred tax assets		EUR '000
	31/12/2017	31/12/2016
Intangible assets	1	8
Property, plant and equipment	7,848	9,992
Financial assets	6,634	7,020
Other assets	9,954	7,848
Provisions	17,120	19,132
Investment grants	311	152
Other liabilities	4,199	4,607
Tax loss carryforwards	2,152	6,755
Tax credits	1,668	5,119
Gross deferred tax assets – before valuation adjustment	**49,887**	**60,634**
Valuation adjustment to deferred tax assets	(14,324)	(20,499)
Thereof relating to tax loss carryforwards	(1,970)	(6,579)
Gross deferred tax assets	**35,562**	**40,135**
Offsettable against deferred tax liabilities	(31,571)	(36,068)
Net deferred tax assets	**3,991**	**4,067**

Deferred tax liabilities		EUR '000
	31/12/2017	31/12/2016
Intangible assets	451	306
Property, plant and equipment	70,809	76,422
Financial assets	1,640	1,252
Other assets	3,001	2,500
Special depreciation/amortization for tax purposes	5,543	5,709
Provisions	0	271
Investment grants	532	483
Other liabilities	2,281	2,053
Gross deferred tax liabilities	**84,257**	**88,997**
Offsettable against deferred tax assets	(31,571)	(36,068)
Net deferred tax liabilities	**52,685**	**52,929**

Information on tax credits is provided in note 16.

Of the total gross deferred tax assets, EUR 12,282 thousand (December 31, 2016: EUR 16,092 thousand) are due within one year. Of the total gross deferred tax liabilities, EUR 4,912 thousand (December 31, 2016: EUR 2,278 thousand) are due within one year. The remaining amounts are due in more than one year.

Deferred taxes developed as follows:

Development of deferred taxes		EUR '000
	2017	2016
As at 01/01	(48,862)	(46,857)
Recognized in profit or loss	1,023	(4,471)
Recognized in other comprehensive income	(3,887)	3,626
Changes in the scope of consolidation and disposal of other business areas	0	(119)
Currency translation adjustment	3,031	(1,041)
As at 31/12	**(48,694)**	**(48,862)**

The Group held tax loss carryforwards of EUR 9,309 thousand (December 31, 2016: EUR 27,892 thousand). The existing tax loss carryforwards can be utilized as follows:

Loss carryforwards (assessment basis)		EUR '000
	31/12/2017	31/12/2016
Total	**9,309**	**27,892**
Thereof capitalized loss carryforwards	1,061	1,035
Thereof non-capitalized loss carryforwards	8,248	26,856
Possible expiration of non-capitalized loss carryforwards		
Within 1 year	54	29
Within 2 years	5,844	7,934
Within 3 years	1,235	16,133
Within 4 years	62	1,317
Within 5 years or longer	202	169
Unlimited carryforward	851	1,274

Net deferred tax assets of EUR 3,991 thousand were recognized as at December 31, 2017 (December 31, 2016: EUR 4,067 thousand), including EUR 45 thousand (December 31, 2016: EUR 168 thousand) in group companies that recorded a loss in 2017 or 2016.

Certain loss carryforwards were not capitalized because their usability is restricted. If all tax loss carryforwards could be utilized in full, the deferred tax assets on loss carryforwards would total EUR 2,152 thousand (December 31, 2016: EUR 6,755 thousand) instead of EUR 182 thousand (December 31, 2016: EUR 175 thousand).

The financial assets and other assets shown under deferred tax assets in the above table include amounts for outstanding partial write-downs to investments in accordance with Section 12 Para. 3 no. 2 of the Austrian Corporation Tax Act ("Siebentelabschreibung", the partial write-downs of investments over a period of seven years for tax purposes) corresponding to a measurement base of EUR 27,320 thousand (December 31, 2016: EUR 28,095 thousand). Partial write-downs of EUR 1,672 thousand were utilized for tax purposes in 2017 (2016: EUR 2,974 thousand).

Deferred tax liabilities were not recognized for temporary differences with a measurement base of EUR 513,474 thousand (December 31, 2016: EUR 381,710 thousand) in connection with investments in subsidiaries, joint ventures and associates and the related proportional share of net assets held by group companies because these differences are not expected to reverse in the foreseeable future.

The receivables from current taxes include prepayments made to foreign taxation authorities. These amounts are recognized when the recoverability is probable, while valuation adjustments are made in all other cases.

The corporate tax group established with the B&C Group was restructured in 2017 and the new head of the group is B&C Holding Österreich GmbH, Vienna (2016: B&C Industrieholding GmbH as the head of the group). This restructuring did not lead to any material changes in the consolidated financial statements of Lenzing AG.

Lenzing AG and the subsidiaries included in the group tax agreement are members of the tax group established on July 20, 2017 between B&C Holding Österreich GmbH, as the head of the group, and Lenzing AG and other subsidiaries of Lenzing AG, as group members, in accordance with Section 9 of the Austrian Corporation Tax Act (2016: the head of the tax group established on September 25, 2009 was B&C Industrieholding GmbH).

Group taxation includes the offset of taxable profits and losses beetween the group members. The deferred tax assets and deferred tax liabilities of the group members are also offset based on their joint tax assessment. Future tax liabilities from the offset of losses from foreign subsidiaries are recognized in the consolidated financial statements without discounting. The group and tax equalization agreement requires Lenzing AG to pay a tax allocation equal to the corporate income tax attributable to the taxable profit of the company and the subsidiaries included in the tax group. The tax allocation payable by Lenzing AG is reduced by any domestic and foreign withholding taxes deductible from the overall group result by the group parent and by any transferred minimum corporate income taxes.

The tax allocation to be paid by Lenzing AG is also reduced by any current losses/loss carryforwards caused by the group parent that can be offset against positive earnings of Lenzing AG's tax group in the assessment year. The tax allocation is reduced by 25 percent (2016: 50 percent) of the corporate tax rate (i.e. currently 6.25 percent; 2016: 12.5 percent) applicable to the current losses/loss carryforwards recorded by the head of the tax group that are offset against positive earnings in an assessment year for the head of the tax group. Tax losses recorded by Lenzing AG and the participating subsidiaries are kept on record and offset against future tax gains. An equalization payment is made as compensation for any losses that are not offset when the contract is terminated.

The Lenzing Group includes the effects of uncertain tax positions in the calculation of current and deferred taxes. Tax claims are recognized at the expected reimbursement amount in cases where the claim is sufficiently certain. The tax returns of the Lenzing Group's subsidiaries are reviewed regularly by the taxation authorities. Appropriate provisions have been recognized for possible future tax obligations based on a number of factors which include interpretations, commentaries and legal decisions relating to the respective tax jurisdiction and past experience. Uncertain tax positions are evaluated on the basis of estimates and assumptions for future events. New information can become available in the future that leads the Group to change its assumptions regarding the appropriateness of tax positions. Any such changes will affect tax expense in the period in which they are identified.

The recoverability of deferred tax assets is generally based on the positive taxable results expected in the future – after the deduction of taxable temporary differences – in line with the forecasts approved by the Management Board. These forecasts are also used for impairment testing (see, in particular, note 18 under "impairment tests of intangible assets and property, plant and equipment" for details). The assessment of unused tax loss carryforwards and tax credits also involves the consideration of utilization requirements.

Note 31. Provisions

The Lenzing Group's provisions are classified as follows:

Provisions	Total		Thereof current		Thereof non-current	EUR '000
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Provisions for pensions and similar obligations						
Pensions and severance payments	105,389	108,633	6,465	4,885	98,924	103,748
Jubilee benefits	14,588	14,693	1,042	759	13,546	13,934
	119,977	**123,326**	**7,507**	**5,644**	**112,470**	**117,682**
Other provisions						
Guarantees and warranties	664	590	664	590	0	0
Anticipated losses and other risks	12,729	15,400	1,850	1,765	10,879	13,635
Emission certificates	1,938	1,852	1,938	1,852	0	0
Other	7,374	17,975	1,374	11,975	6,000	6,000
	22,705	**35,817**	**5,826**	**16,183**	**16,879**	**19,635**
Accruals						
Personnel expenses (non-financial)	58,211	49,913	55,907	49,095	2,303	818
Other (financial)	26,599	26,309	26,509	26,309	90	0
	84,809	**76,222**	**82,416**	**75,404**	**2,393**	**818**
Total	**227,491**	**235,365**	**95,749**	**97,230**	**131,742**	**138,135**

Provisions for pensions and similar obligations

Pensions and severance payments

The Lenzing Group has entered into obligations for pensions and severance payments from defined benefit plans, which are reported under provisions for pensions and severance payments, and from defined contribution plans.

Defined benefit plans (for pensions and severance payments)

The benefits resulting from the defined benefit plans for pensions and severance payments are dependent on the final salary or wage and the length of service. They do not require any contributions by employees.

The defined benefit pension plans are based on contractual obligations. The Lenzing Group's most important defined benefit pension plan is located in Austria. It applies to employees who joined the Group before January 1, 2000 and decided to remain in the plan. The claims generally arose after a vesting period of at least 10 or 15 service years. A retirement age of 58 to 63 years is assumed for the beneficiaries, depending on their gender. At present, the plan primarily covers employees who have already retired. Qualifying insurance policies were recognized as plan assets in some cases, while coverage for these obligations is also provided by securities that do not qualify as plan assets.

The Lenzing Group also has a pension plan in Hong Kong. This defined benefit pension plan applies to employees who joined the group before January 1, 2000 and decided to remain in the plan. It is financed chiefly by employer contributions to an external pension fund. The amount of the employer's contributions is redefined every three years after an evaluation of the plan's financial position. The claims are settled with a lump sum payment immediately on occurrence of the insured event.

The defined benefit severance plans are based on statutory obligations and obligations under collective agreements. The Lenzing Group's most important defined benefit severance plan is located in Austria. This plan entitles employees whose employment relationship is governed by Austrian law and started before January 1, 2003 to a severance payment in specific cases, in particular when they reach the statutory retirement age and in the event of termination by the employer ("old severance payment system"). The amount of the severance payment depends on the employee's salary or wage at the termination of employment and on the length of the employment relationship. There are similar major defined benefit severance plans in Indonesia and the Czech Republic, which apply to all employees irrespective of when they joined the respective company. The defined benefit severance plans are not covered by assets, but are financed entirely through provisions.

The defined benefit pension and severance plans are principally connected with the following risks that influence the amount of the obligations to be recognized:

- **Investment risk**: A decline in the income from plan assets below the discount rate will result in a plan deficit and an increase in the obligations.
- **Interest rate risk**: A decrease in the discount rate due to lower bond interest rates on the capital market will result in an increase in the obligations.
- **Salary and pension trend**: An increase in the actual salary and pension trends over the expected future levels will result in an increase in the obligations.

- **Personnel turnover and departure risk**: A decline in the expected personnel turnover rates will result in an increase in the obligations.
- **Longevity risk**: An increase in the life expectancy of the beneficiaries will result in an increase in the obligations.

The Lenzing Group is also exposed to currency risks in connection with these plans.

The Lenzing Group takes various steps to reduce the risks from defined benefit plans. The related measures include, in particular, the external financing of defined benefit plans with plan assets or the coverage of obligations with securities that do not qualify as plan assets and the settlement of existing defined benefit plans with installment payments. In addition, pension and similar commitments are now only concluded as defined contribution commitments where possible and legally permissible.

The objectives of the investment policy are to create an optimal composition of plan assets and to ensure sufficient coverage for the existing claims of participating employees. The investment strategies (asset allocations) for the plan assets are contractually regulated. A reinsurance policy was concluded for part of the claims from the Austrian pension plan and is reported under plan assets. This policy is a conventional life insurance policy which invests primarily in debt instruments that reflect the maturity profile of the underlying claims and are intended to maintain a high degree of investment security. The Lenzing Group makes no further contributions to this insurance policy. The pension fund which serves as plan assets to cover the defined benefit plan in Hong Kong follows an investment policy that is designed to achieve medium-term to long-term performance above the inflation rate and invests primarily in equity instruments to reach this goal.

The composition of plan assets by asset class is shown below:

Composition of plan assets EUR '000

	31/12/2017	31/12/2016
Cash and cash equivalents	48	69
Equity instruments	1,063	1,218
Debt instruments	231	277
Insurance policies qualifying as plan assets	3,136	3,275
Balance	**4,478**	**4,838**

The fair values of the above-mentioned equity and debt instruments are based on price quotations on an active market. The fair value of the insurance policy is not determined on an active market, but corresponds to the reported coverage capital. The plan assets do not include any financial instruments issued by or assets used by the Lenzing Group. The fair value of cash and cash equivalents corresponds to the nominal value as at the reporting date. The actual return on plan assets totaled EUR 343 thousand in 2017 (2016: EUR 305 thousand). The net interest expense from the defined benefit plans (expenses from the accrued interest on the obligations and the return on plan assets) is reported under personnel expenses.

The most important actuarial parameters applied to the defined benefit pension and severance plans are as follows:

Actuarial assumptions for defined benefit pension and severance plans p. a. in %

31/12/2017	Discount rate	Salary increase	Pension increase	Staff turnover deductions
Austria – pensions	1.5	2.5	0.0-3.0	0.0
Austria – severance payments	1.6	2.5	N/A	0.1-3.5
Other countries:				
Indonesia	6.8	8.0	N/A	1.0-7.5
Hong Kong	1.8	4.0	N/A	0.0
Czech Republic	1.6	3.0	N/A	0.3
31/12/2016				
Austria – pensions	1.4	3.0	0.0-3.0	0.0
Austria – severance payments	1.5	3.0	N/A	0.0-3.7
Other countries:				
Indonesia	8.0	8.0	N/A	1.0-7.5
Hong Kong	1.8	3.5-4.5	N/A	0.0
Czech Republic	1.4	2.5	N/A	0.9

The major obligations from the defined benefit plans are the obligations for pensions and severance payments in the Lenzing Group‘s Austrian companies. The discount rate for these obligations was derived from high-quality fixed-income corporate bonds with at least an AA rating based on an international actuary’s standards. Bonds with significantly higher or lower interest rates than the other bonds in their risk class (“statistical outliers”) were not included in the calculation. The currency and terms of the bonds used to derive the discount rate are based on the currency and expected terms of the obligations to be settled. The estimated salary and pension increases, which are also considered realistic for the future, were derived from the averages of recent years. Separate employee turnover rates were applied for each company depending on the composition of the workforce and the employees’ length of service. The retirement age used for the calculation is based on the applicable legal regulations. Individual, country-specific assumptions were made for each of the other countries to determine the discount rate, salary increases, employee turnover rates and retirement age.

The parameters used to calculate the defined benefit pension plans in Austria for 2017 and 2016 included the biometric data from Pagler & Pagler AVÖ 2008 P – the calculation base for pension insurance for salaried employees. The calculation of the defined benefit severance plans in Austria for 2017 and 2016 include an estimated employee turnover rate which covers all reasons for departure without entitlement to severance payments.

The following biometric data and assumptions are used in other countries:

- Indonesia: Indonesia mortality table (Tabel Mortalita Indonesia TMI 2011)
- Czech Republic: AVÖ 2008-P (Pagler & Pagler)
- Other: No biometric assumptions were made because of the low number of beneficiaries.

The obligations (carrying amounts) from defined benefit pension and severance plans (incl. restructuring measures) reported in the consolidated statement of financial position comprise the following:

Development of defined benefit plans EUR '000

	Present value of pension and severance payment obligation (DBO)		Fair value of plan assets		Carrying amounts of defined benefit pension and severance plans	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Balance as at 01/01	**113,471**	**101,348**	**4,838**	**4,721**	**108,633**	**96,626**
Service cost						
Current service cost	3,755	4,669	0	0	3,755	4,669
Past service cost	(353)	7	0	0	(353)	7
Net interest	2,412	2,861	68	86	2,344	2,774
Administrative and other costs	0	0	(1)	(1)	1	1
Income and expenses from defined benefit plans recognized on the income statement	**5,814**	**7,536**	**67**	**85**	**5,747**	**7,451**
Remeasurement during the reporting period						
On the basis of financial assumptions	(2,528)	6,934	0	0	(2,528)	6,934
On the basis of experience adjustments	1,528	4,656	0	0	1,528	4,656
On the basis of income from plan assets, excl. amounts included in interest income	0	0	267	225	(267)	(225)
Remeasurement of defined benefit plans included in other comprehensive income	**(1,000)**	**11,589**	**267**	**225**	**(1,267)**	**11,364**
Cash flows						
Payments made from the plan	(539)	(283)	(539)	(283)	0	0
Direct payments and contributions by the employer	(5,996)	(6,506)	35	39	(6,031)	(6,545)
Change in the scope of consolidation and disposal of other business areas	0	(896)	0	0	0	(896)
Currency translation adjustment	(1,883)	682	(190)	50	(1,693)	632
Other reconciliation items	**(8,418)**	**(7,003)**	**(693)**	**(194)**	**(7,724)**	**(6,809)**
Balance as at 31/12	**109,867**	**113,471**	**4,478**	**4,838**	**105,389**	**108,633**
Thereof pensions in Austria	26,078	27,609	3,136	3,275	22,942	24,334
Thereof severance payments in Austria	65,332	68,611	0	0	65,332	68,611
Thereof pensions and severance payments in other countries	18,457	17,251	1,342	1,563	17,116	15,688

Sensitivity analyses are performed to evaluate the risk of changes in the actuarial parameters used to measure the present value of the obligations from defined benefit plans. These sensitivity analyses show the effects on the present value of the obligations from hypothetical changes in key parameters that could have reasonably changed as at the reporting date. One parameter was changed for each analysis, while all other parameters were kept constant. The sensitivity analyses are based on the present values of the obligations as at the reporting date before the deduction of plan assets (gross obligation/DBO) and before reclassification to other provisions for restructuring measures.

The sensitivities of the parameters as at the reporting dates are as follows:

Sensitivity analysis of the defined benefit pension and severance payment obligations

31/12/2017	**Change in parameters (percentage points)**	**Decrease in parameter/change in present value of obligation in EUR '000**	**Increase in parameter/change in present value of obligation in EUR '000**
Discount rate	1.0	11,006	(9,447)
Salary increase	1.0	(7,254)	8,267
Pension increase	1.0	(2,056)	2,353

Sensitivity analysis of the defined benefit pension and severance payment obligations (previous year)

31/12/2016	Change in parameters (percentage points)	Decrease in parameter/change in present value of obligation in EUR '000	Increase in parameter/change in present value of obligation in EUR '000
Discount rate	1.0	11,992	(10,245)
Salary increase	1.0	(7,780)	8,901
Pension increase	1.0	(2,267)	2,607

The above sensitivity analyses represent hypothetical changes based on assumptions. Actual deviations from these assumptions will result in other effects. In particular, the parameters changed individually for the analysis may actually correlate with each other. The deduction of plan assets will lead to a further reduction of the effects.

The weighted average terms (durations) of the defined benefit pension and severance payment obligations in years are as follows:

Weighted average durations of the defined benefit pension and severance payment obligations Years

	31/12/2017	31/12/2016
Austria – pensions	9	9
Austria – severance payments	10-13	10–15
Other countries:		
Indonesia	9	8
Hong Kong	7	7
Czech Republic	9	9

The Lenzing Group expects contributions of EUR 32 thousand to plan assets for the pension and severance plans in the coming year (2016: TEUR 36 thousand).

Defined contribution plans (for pensions and severance payments)

The Lenzing Group makes payments to pension funds and similar external funds for defined contribution pension and severance plans. The most significant defined contribution pension and severance plans for the Lenzing Group are located in Austria ("new severance payment system" and individual contractual commitments).

The expenses for defined contribution plans are as follows:

Expenses for defined contribution plans EUR '000

	2017	2016
Austria – pensions	1,485	1,363
Austria – severance payments	1,719	1,333
Other countries	2,833	2,210
Total	**6,037**	**4,906**

Provisions for jubilee benefits

Collective agreements require Lenzing AG and certain subsidiaries, particularly in Austria and the Czech Republic, to pay jubilee benefits to employees who have been with the company for a certain length of time. No assets were segregated from the company and no contributions were made to a pension fund or any other external fund to cover these obligations. The jubilee benefits do not require any contributions by employees.

The obligations from jubilee benefits for employees (long-service bonuses) are considered other long-term employee benefits under IFRS. The net interest expense from jubilee benefits (expenses from the accrued interest on the obligations) is recorded under personnel expenses. The discount rate applied to the Austrian obligations is similar to the discount rate used for the other defined benefit plans. Employee turnover rates were determined separately for each company depending on the composition of the workforce and employees' length of service. Individual, country-specific assumptions were made for the discount rate, employee turnover rates and salary increases in the other countries.

The main actuarial parameters applied to the obligations for jubilee benefits are as follows:

Actuarial assumptions for the jubilee benefit obligations p. a. in %

31/12/2017	Discount rate	Salary increase	Staff turnover deductions
Austria	1.6	2.5	1.2-5.7
Czech Republic	0.8	3.0	0.3
31/12/2016			
Austria	1.5	3.0	1.4-5.5
Czech Republic	0.8	2.5	0.9

The following table shows the development of the obligation (provision) for jubilee benefits:

Development of the jubilee benefit obligation (provision) EUR '000

	2017	2016
Balance on 01/01	**14,693**	**13,432**
Service cost		
Current service cost	814	726
Past service cost	0	4
Net interest	216	270
Remeasurement during the reporting period		
On the basis of demographic assumptions	0	0
On the basis of financial assumptions	(884)	954
On the basis of experience adjustments	320	(77)
Income and expenses from defined benefit plans recognized on the income statement	**465**	**1,877**
Cash flows		
Direct payments by employer	(574)	(438)
Change in the scope of consolidation and disposal of other business areas	0	(177)
Currency translation adjustment	3	0
Other reconciliation items	**(571)**	**(616)**
Balance as at 31/12	**14,588**	**14,693**

Other provisions and accruals

Other provisions and accruals developed as follows:

Development of other provisions and accruals

2017	As at 01/01	Currency translation adjustment	Changes in scope of consolidation and disposal of other business areas	Other reclassification
Other provisions				
Restructuring measures	0	0	0	0
Guarantees and warranties	590	0	0	0
Anticipated losses and other risks	15,400	0	0	0
Emission certificates	1,852	1	0	0
Other	17,975	(113)	0	0
	35,817	**(112)**	**0**	**0**
Accruals				
Personnel expenses (non-financial)	49,913	(552)	0	1,919
Other (financial)	26,309	(1,626)	0	0
	76,222	**(2,177)**	**0**	**1,919**
Total	**112,039**	**(2,290)**	**0**	**1,919**

Development of other provisions and accruals (previous year)

2016	As at 01/01	Currency translation adjustment	Changes in scope of consolidation and disposal of other business areas	Other reclassification
Other provisions				
Restructuring measures	983	0	0	(88)
Guarantees and warranties	1,824	0	0	0
Anticipated losses and other risks	13,919	(12)	0	0
Emission certificates	1,787	0	0	0
Other	8,804	(4)	0	0
	27,317	**(16)**	**0**	**(88)**
Accruals				
Personnel expenses (non-financial)	31,842	69	(105)	0
Other (financial)	23,419	(200)	0	0
	55,261	**(131)**	**(105)**	**0**
Total	**82,578**	**(147)**	**(105)**	**(88)**

EUR '000

	Utilization	Reversal	Addition	Accrued interest	As at 31/12	Thereof current	Thereof non-current
	0	0	0	0	**0**	0	0
	(50)	(326)	451	0	**664**	664	0
	(800)	(2,014)	0	143	**12,729**	1,850	10,879
	(1,785)	(67)	1,937	0	**1,938**	1,938	0
	(9,034)	(1,965)	510	0	**7,374**	1,374	6,000
	(11,669)	**(4,372)**	**2,899**	**143**	**22,705**	**5,826**	**16,879**
	(44,080)	(1,747)	52,757	0	**58,211**	55,907	2,303
	(18,451)	(3,759)	24,125	0	**26,599**	26,509	90
	(62,530)	**(5,505)**	**76,882**	**0**	**84,809**	**82,416**	**2,393**
	(74,199)	**(9,877)**	**79,780**	**143**	**107,515**	**88,242**	**19,272**

EUR '000

	Utilization	Reversal	Addition	Accrued interest	As at 31/12	Thereof current	Thereof non-current
	(700)	(195)	0	0	**0**	0	0
	(272)	(1,008)	46	0	**590**	590	0
	(1,102)	(2,647)	5,238	5	**15,400**	1,765	13,635
	(1,647)	(141)	1,852	0	**1,852**	1,852	0
	(824)	(514)	10,513	0	**17,975**	11,975	6,000
	(4,544)	**(4,505)**	**17,649**	**5**	**35,817**	**16,183**	**19,635**
	(25,469)	(3,612)	47,188	0	**49,913**	49,095	818
	(17,537)	(3,138)	23,765	0	**26,309**	26,309	0
	(43,006)	**(6,750)**	**70,954**	**0**	**76,222**	**75,404**	**818**
	(47,550)	**(11,255)**	**88,603**	**5**	**112,039**	**91,587**	**20,453**

The measurement of provisions is based on past experience, current cost and price information and estimates/appraisals by internal and external experts. The assumptions underlying the provisions are reviewed regularly. The actual values may differ from these assumptions if general conditions develop in contrast to expectations as at the reporting date. Changes are recognized in profit or loss when better information is available and the premises are adjusted accordingly.

The other provisions for guarantees and warranties consist primarily of provisions for warranty risks from the sale of defective products and guaranteed obligations for the benefit of third parties. Other provisions for anticipated losses and other risks include, in particular, provisions for obligations from infrastructure services to be performed and provisions for additional claims from procurement contracts and for other onerous contracts. Other provisions for emission certificates comprise the equivalent value of the emission certificates used.

Miscellaneous other provisions relate primarily to obligations of EUR 6.000 thousand (December 31, 2016: EUR 6.000 thousand) for legal disputes and cover, in particular, the provision for legal proceedings initiated by the Lenzing Group against patent infringements.

Provisions also include accruals. In comparison with provisions in the narrower sense of the term, accruals are generally certain with regard to their underlying cause and only involve an insignificant level of risk concerning their amount and timing. Accruals are reported separately under the development of provisions.

The accruals for personnel costs consist primarily of liabilities for short-term claims by active and former employees (in particular, for unused vacation and compensation time, overtime and performance bonuses).

Other accruals cover, above all, anticipated losses from revenue reductions/increases in expenses from transactions with customers and suppliers (in particular, discounts and rebates) and liabilities for the delivery of goods and the performance of services by third parties which have not yet been invoiced.

The other current provisions and accruals are expected to lead to an outflow of funds within the next 12 months. The outflow of funds arising from the long-term portion of other provisions is dependent on various factors (in particular, guarantee and warranty periods, contract terms and other events):

- The outflow of funds related to the other provisions for guarantees and warranties is expected within the next 12 months.
- The other provisions for anticipated losses and other risks are expected to lead to an outflow of funds as follows:

Expected outflow of funds in connection with other provisions (non-current) for anticipated losses and other risks (estimated as of the reporting date) **EUR '000**

	31/12/2017	31/12/2016
In the 2nd year	1,842	1,933
In the 3rd to 5th year	3,080	4,151
In the 6th to 10th year	4,982	5,431
Thereafter	974	2,120
Total	**10,879**	**13,635**

The exact timing of the outflow of funds related to the miscellaneous other provisions (legal disputes) is uncertain at the present time. Previous developments indicate that the outflow of funds is, in all probability, not to be expected within the next 12 months.

Note 32. Other liabilities and trade payables

Other liabilities consist of the following:

Other liabilities		EUR '000
	31/12/2017	31/12/2016
Other non-current financial liabilities (particularly from derivatives)	561	299
Other non-current non-financial liabilities (particulary partial retirement obligations)	3,254	3,365
Total other non-current liabilities	**3,815**	**3,664**
Other current financial liabilities		
Derivatives not yet settled (open positions)	3,283	11,354
Customer payments from factoring not yet forwarded	0	27,034
Other	4,032	6,425
	7,315	**44,813**
Other current non-financial liabilities		
Liabilities from other taxes	3,277	7,044
Wage and salary liabilities	6,268	6,024
Social security liabilities	6,068	5,426
Prepayments received	12,050	26,008
Deferred income and other	3,554	3,205
	31,217	**47,706**
Total other current liabilities	**38,532**	**92,519**

Liabilities that are part of reverse factoring agreements are evaluated to determine whether the original trade payable must still be reported or whether it must be derecognized and a new financial liability recognized in accordance with the agreement. The decisive factor is whether the Lenzing Group was released from its original obligation. In cases where there was no release from the original obligation, the Lenzing Group evaluates whether the reverse factoring agreement has led to a new obligation that must be recognized in addition to the trade payable. If that is also not the case, a present value test is carried out to determine whether the reverse factoring agreement has resulted in significant changes to the contractual terms of the trade payable which lead to derecognition of the trade payable and the recognition of a new financial liability.

Suppliers of the Lenzing Group finance their trade receivables from the Lenzing Group with reverse factoring agreements. These suppliers can commission their banks to forward payment for the receivables at an earlier point in time. The present value test indicates that these agreements do not significantly change the contract terms. The agreements do not lead to the reclassification of the involved trade payables to another class of liability under civil law or IFRS regulations from the Lenzing Group's perspective. Consequently, there are no changes to the presentation on the consolidated statement of financial position (under trade payables) or the consolidated statement of cash flows (under cash flow from operating activities). The potentially affected trade payables totaled EUR 107,536 thousand as at December 31, 2017 (December 31, 2016: EUR 128,881 thousand).

Notes to the Consolidated Statement of Cash Flows

Note 33. Disclosures on the Consolidated Statement of Cash Flows

Liquid funds represent cash and cash equivalents as shown on the statement of financial position. Cash and cash equivalents include cash in hand and cash at banks, demand deposits, checks and short-term time deposits as well as liquid current securities with a term of less than three months which are only subject to limited fluctuations in value.

The partial sale of EQUI-Fibres Beteiligungsgesellschaft mbH in 2016 resulted in cash inflows of EUR 22,236 thousand in 2017 which are reported under cash flow from investment activity. Other non-cash income/expenses in 2017 includes the allocation of profit or loss totaling EUR 6,298 thousand (2016: EUR 4,809 thousand) to puttable non-controlling interests as well as impairment losses to financial assets and other non-current financial assets of EUR 366 thousand (2016: EUR 236 thousand). Other non-cash income/expenses also contain unrealized net exchange rate gains/losses and measurement effects from receivables and inventories.

Non-cash transactions from the acquisition of intangible assets and property, plant and equipment are not included in cash flow from investing activities for the current period. These transactions essentially involve outstanding payments to suppliers of EUR 19,583 thousand (2016: EUR 7,740 thousand).

Net cash inflow from the sale and disposal of subsidiaries is reported under cash flow from investing activities (also see note 4).

Cash and cash equivalents also include bank accounts with negative balances in cases where netting agreements have been concluded (see note 35).

Reconciliation of financial liabilities EUR '000

2017		Bond	Private placements	Subtotal bonds and private placements	Bank borrowings	Borrowings from other lenders	Lease liabilities	Subtotal other financial liabilities	Total
As at 01/01		**119,922**	**248,457**	**368,379**	**180,504**	**25,875**	**2,756**	**209,134**	**577,513**
Cash flows	Increase in financial liabilities	0	0	0	2,297	13,625	0	15,922	15,922
	Repayment of financial liabilities	(120,000)	0	(120,000)	(78,252)	(4,787)	(164)	(83,204)	(203,204)
Non-cash changes	Foreign exchange adjustment	0	0	0	(7,148)	(326)	0	(7,473)	(7,473)
	Discounting/accured interest	78	111	189	306	86	75	467	656
	Other changes	0	0	0	0	0	(815)	(815)	(815)
As at 31/12		**0**	**248,568**	**248,568**	**97,707**	**34,473**	**1,852**	**134,031**	**382,599**

Notes on Risk Management

Note 34. Capital risk management

General information

The overriding objective of equity and debt management in the Lenzing Group is to optimize the income, costs and assets of the individual operations/business units and of the Group as a whole in order to achieve and maintain sustainably strong economic performance and a sound balance sheet structure. An important role in this process is played by financial leverage capacity, the protection of sufficient liquidity at all times and a clear focus on key cash-related and performance indicators in line with the Group's strategic course and long-term goals. This protects the ability of the group companies to operate on a going concern basis. In addition, the authorized capital and contingent capital give Lenzing AG greater flexibility in raising additional equity in order to take advantage of future market opportunities.

The equity management strategy followed by the Lenzing Group is designed to ensure that Lenzing AG and the other group companies have an adequate equity base to meet local requirements. A number of the loan agreements with banks also include financial covenants, above all concerning the level of equity, the ratio of net financial debt to EBITDA and other financial indicators or financial criteria for the Group or individual or aggregated group companies. A breach of these financial covenants would allow the banks to demand early repayment of the financial liabilities in certain cases. These financial covenants are regularly monitored by the Global Treasury department and are considered in the determination of distributions by the involved group companies. All related capital requirements were met during the 2017 financial year.

Management uses an adjusted equity ratio for internal control purposes. Adjusted equity is calculated in accordance with IFRS and comprises equity as well as investment grants less the related deferred taxes. The adjusted equity ratio (= adjusted equity in relation to total assets) equaled 61.2 percent as at December 31, 2017 (December 31, 2016: 53.0 percent).

Adjusted equity is calculated as follows:

Adjusted equity		EUR '000
	31/12/2017	31/12/2016
Equity	1,507,879	1,368,535
Government grants (+)	26,231	28,905
Proportional share of deferred taxes on government grants (–)	(6,417)	(6,967)
Total	**1,527,693**	**1,390,473**

The dividend policy of Lenzing AG, as the parent company of the Lenzing Group, is based on the principles of continuity and a long-term focus in order to support the future development of the company, to distribute dividends to shareholders in line with the company's opportunity and risk situation, and to appropriately reflect the interests of all other stakeholders who are decisive for the company's success.

Net financial debt

The Supervisory Board and Management Board of Lenzing AG regularly review the development of net financial debt because this indicator is an extremely important benchmark not only for the Group's management, but also for the financing banks. The continued optimal development of the Lenzing Group is only possible with convincing internal financing strength as the basis for increased debt capacity.

Interest-bearing financial liabilities are classified as follows:

Interest-bearing financial liabilities		EUR '000
	31/12/2017	31/12/2016
Non-current financial liabilities	255,330	328,266
Current financial liabilities	127,270	249,247
Total	**382,599**	**577,513**

Liquid assets consist of the following:

Liquid assets		EUR '000
	31/12/2017	31/12/2016
Cash and cash equivalents	306,455	559,599
Liquid bills of exchange (in trade receivables)	9,367	10,752
Total	**315,822**	**570,351**

Net financial debt in absolute terms and in relation to EBITDA (after restructuring/according to the consolidated income statement and before restructuring) is as follows:

Net financial debt (absolute)		EUR '000
	31/12/2017	31/12/2016
Interest-bearing financial liabilities	382,599	577,513
Liquid assets (–)	(315,822)	(570,351)
Total	**66,777**	**7,162**

Net financial debt in relation to EBITDA		EUR '000
	31/12/2017	31/12/2016
EBITDA (after restructuring and according to the consolidated income statement)	**502,470**	**428,288**
Restructuring (see note 5)	(518)	(583)
EBITDA (before restructuring)	**501,953**	**427,705**
Net financial debt/EBITDA (after restructuring and according to the consolidated income statement)	**0.1**	**0.0**
Net financial debt/EBITDA (before restructuring)	**0.1**	**0.0**

Note 35. Disclosures on financial instruments

Carrying amounts, fair values, measurement categories and measurement methods

The following table shows the carrying amounts and fair values of the financial assets and financial liabilities for each class and each IAS 39 category and reconciles this information to the appropriate line items on the statement of financial position. Other receivables (non-current and current) and other liabilities (non-current and current) as reported on the statement of financial position include financial instruments as well as non-financial assets and liabilities. Therefore, the “no financial instrument“ column allows for a complete reconciliation with the line items on the statement of financial position.

Carrying amounts, category, fair value and fair value hierarchy of financial instruments EUR '000

Financial assets as at 31/12/2017	Carrying amount						Fair value	
	At amortized cost (loans and receivables)	At fair value through profit or loss	At fair value directly in equity		No financial instrument	Total	Fair value	Fair value hierachy
			Available for sale	Cashflow hedges				
Originated loans	16,095					16,095	16,095	[2]
Non-current securities			18,785			18,785	18,785	Level 1
Other equity investments			1,562[1]			1,562	1,562	[1]
Financial assets	**16,095**	**0**	**20,347**	**0**	**0**	**36,442**	**36,442**	
Trade receivables	**292,770**	**0**	**0**	**0**	**0**	**292,770**	**292,770**	[2]
Derivatives with a positive fair value (cash flow hedges)				7,485		7,485	7,485	Level 2
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)		5,185				5,185	5,185	Level 2
Other	27,360				76,464	103,824	103,824	[2]
Other assets (current and non-current)	**27,360**	**5,185**	**0**	**7,485**	**76,464**	**116,494**	**116,494**	
Cash and cash equivalents	**306,455**	**0**	**0**	**0**	**0**	**306,455**	**306,455**	[2]
Total	**642,680**	**5,185**	**20,347**	**7,485**	**76,464**	**752,161**	**752,161**	

Financial liabilities as at 31/12/2017	Carrying amount					Fair value	
	At amortized cost	At fair value through profit or loss	At fair value directly in equity	No financial instrument	Total	Fair value	Fair value hierachy
			Cashflow hedges				
Bond	0				0	0	
Private placements	248,568				248,568	258,083	Level 3
Liabilities to banks	97,707				97,707	97,855	Level 3
Liabilities to other lenders	34,473				34,473	34,429	Level 3
Lease liabilities				1,852	1,852	1,852	[2]
Financial liabilities	**380,747**	**0**	**0**	**1,852**	**382,599**	**392,219**	
Trade payables	**218,433**	**0**	**0**	**0**	**218,433**	**218,433**	[2]
Provisions (current)	**26,509**	**0**	**0**	**69,241**	**95,749**	**95,749**	[2]
Puttable non-controlling interests	**17,967**	**0**	**0**	**0**	**17,967**	**17,967**	[2]
Derivatives with a negative fair value (cash flow hedges)			2,528		2,528	2,528	Level 2
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)		1,316			1,316	1,316	Level 2
Financial guarantee contracts		0			0	0	
Other	4,032			34,471	38,503	38,503	[2]
Other liabilities (current and non-current)	**4,032**	**1,316**	**2,528**	**34,471**	**42,347**	**42,347**	
Total	**647,689**	**1,316**	**2,528**	**105,563**	**757,096**	**766,716**	

1) Measured at cost.
2) The carrying amount approximates fair value.

Carrying amounts, category, fair value and fair value hierarchy of financial instruments (previous year) EUR '000

	Carrying amount						Fair value	
Financial assets as at 31/12/2016	**At amortized cost (loans and receivables)**	**At fair value through profit or loss**	**At fair value directly in equity**		**No financial instrument**	**Total**	**Fair value**	**Fair value hierachy**
			Available for sale	**Cashflow hedges**				
Originated loans	7,339					7,339	7,339	[2]
Non-current securities			16,167			16,167	16,167	Level 1
Other equity investments			1,562[1]			1,562	1,562	[1]
Financial assets	**7,339**	**0**	**17,729**	**0**	**0**	**25,068**	**25,068**	
Trade receivables	**277,407**	**0**	**0**	**0**	**0**	**277,407**	**277,407**	[2]
Derivatives with a positive fair value (cash flow hedges)				1,603		1,603	1,603	Level 2
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)		730				730	730	Level 2
Other	59,907				52,401	112,308	112,308	[2]
Other assets (current and non-current)	**59,907**	**730**	**0**	**1,603**	**52,401**	**114,640**	**114,640**	
Cash and cash equivalents	**559,599**	**0**	**0**	**0**	**0**	**559,599**	**559,599**	[2]
Total	**904,252**	**730**	**17,729**	**1,603**	**52,401**	**976,714**	**976,714**	

	Carrying amount					Fair value	
Financial liabilities as at 31/12/2016	**At amortized cost**	**At fair value through profit or loss**	**At fair value directly in equity**	**No financial instrument**	**Total**	**Fair value**	**Fair value hierachy**
			Cashflow hedges				
Bond	119,922				119,922	123,408	Level 1
Private placements	248,457				248,457	261,357	Level 3
Liabilities to banks	180,504				180,504	180,990	Level 3
Liabilities to other lenders	25,875				25,875	25,862	Level 3
Lease liabilities				2,756	2,756	2,756	[2]
Financial liabilities	**574,757**	**0**	**0**	**2,756**	**577,513**	**594,372**	
Trade payables	**227,208**	**0**	**0**	**0**	**227,208**	**227,208**	[2]
Provisions (current)	**26,309**	**0**	**0**	**70,922**	**97,230**	**97,230**	[2]
Puttable non-controlling interests	**12,970**	**0**	**0**	**0**	**12,970**	**12,970**	[2]
Derivatives with a negative fair value (cash flow hedges)			9,253		9,253	9,253	Level 2
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)		2,399			2,399	2,399	Level 2
Financial guarantee contracts		154			154	154	Level 3
Other	33,307			51,071	84,378	84,378	[2]
Other financial liabilities (current and non-current)	**33,307**	**2,553**	**9,253**	**51,071**	**96,183**	**96,183**	
Total	**874,551**	**2,553**	**9,253**	**124,749**	**1,011,105**	**1,027,964**	

1) Measured at cost.
2) The carrying amount approximates fair value.

Depending on the classification/measurement category, financial instruments are subsequently measured at (amortized) cost or fair value. The Lenzing Group uses the following measurement categories: loans and receivables, available-for-sale financial assets and financial liabilities at amortized cost. The category "financial instruments at fair value through profit or loss" is only used for derivatives. The fair value option is not currently exercised. The Lenzing Group does not have any held-to-maturity investments.

The Lenzing Group uses derivative financial instruments to hedge currency risks arising from the operating business and to manage commodity price risks. These derivative financial instruments serve to balance the variability of cash flows from future transactions. Hedges are determined in advance on the basis of the expected revenue and the planned consumption of commodities in the relevant foreign currency. The Lenzing Group generally applies the hedge accounting rules defined by IAS 39 to these derivative financial instruments. Hedge effectiveness is measured by grouping the hedged items and hedging instruments together in at least quarterly maturity ranges for each hedged risk. The retrospective hedging effect is evaluated with the dollar-offset method, which compares the periodic changes in the fair value of the hedged items with the periodic changes in the fair value of the hedges in line with the compensation method. In hedging future cash flows in foreign currencies (cash flow hedges), the Lenzing

Group typically hedges the risk up to the time of the foreign currency payment.

Derivatives are measured at fair value. Their fair value corresponds to the applicable market value, if available, or is calculated using standard methods based on the market data available at the measurement date (in particular exchange rates, commodity prices and interest rates). Currency and commodity forwards are measured at the respective forward rate or price at the reporting date. These forward rates or prices are based on the spot rates or prices and include forward premiums and discounts. Valuations by banks and other parties are used to supplement the Group's own models. The measurement of derivatives also includes the counterparty risk (credit risk/counterparty risk/non-performance risk) in the form of discounts to the fair value that would be used by a market participant for pricing.

The Lenzing Group accounts for reclassifications in the fair value hierarchy at the end of the reporting period in which the changes occur. There were no transfers between the levels of the fair value hierarchy for the financial instruments in the financial year.

The fair value of purchased bonds is derived from the respective current market prices and fluctuates, in particular, with changes in market interest rates and the credit standing of the issuers. The fair value of shares is derived from the current stock exchange prices. The fair value of investment funds is derived from the latest calculated value. All securities are assigned to the category "available for sale financial assets". Long-term securities are not intended for sale during the next year.

Originated loans are valued at cost or, in the event of impairment, at the lower fair value.

The equity investments and related derivative financial instruments measured at cost (see above) consist primarily of the equity investment in LP Beteiligungs & Management GmbH, Linz, at EUR 1,050 thousand (December 31, 2016: EUR 1,050 thousand). It is connected with two options: one which obligates the Lenzing Group to sell the equity investment and a second one which entitles the Lenzing Group to sell the equity investment. The applicable fair value is subject to a significant fluctuation margin because of the insufficient planning base, difficult-to-estimate valuation discounts and the lack of marketability and, consequently, cannot be reliably determined. Disclosures on fair value are not provided for this reason. The Lenzing Group has no intention to sell these equity investments and rights or to dispose of these obligations at the present time. No gains or losses on remeasurement were recognized during the reporting period with regard to these equity investments, rights and obligations.

The fair value of the issued bond was derived from its current quoted price and increased or decreased, in particular, based on changes in market interest rates and the credit rating of Lenzing AG.

The fair values of the other financial liabilities are determined in accordance with generally accepted valuation methods based on the discounted cash flow method. The most important input factor is the discount rate, which incorporates the available market data (risk-free interest rates) and the credit standing of the Lenzing Group, which is not observable on the market. The fair values of the financial guarantee contracts represent the estimated expected default arising from the maximum possible payment obligation and the expected loss.

In light of the varying influencing factors, the fair values presented can only be considered indicators of the values that could actually be realized on the market.

Offsetting financial assets and liabilities

The Lenzing Group has concluded a number of framework netting agreements (in particular, master netting arrangements). The amounts owed by each counterparty under such agreements on a single day in the same currency based on the total outstanding transactions are aggregated into a single net amount to be paid by one party to the other.

The following tables present information on offsetting financial assets and liabilities in the consolidated statement of financial position on the basis of framework netting agreements. The column "effect of framework netting agreements" shows the amounts which result from these types of agreements, but which do not meet the criteria for offsetting in the IFRS consolidated statement of financial position.

Offsetting financial assets and liabilities EUR '000

Financial assets as at 31/12/2017	Financial assets (gross)	Recognized financial assets (net)	Effect of framework netting agreements	Net amounts
Cash and cash equivalents	306,455	306,455	0	306,455
Other financial assets - derivative financial instruments with a positive fair value	12,670	12,670	(1,011)	11,659
Total	**319,125**	**319,125**	**(1,011)**	**318,114**

EUR '000

Financial liabilities as at 31/12/2017	Financial liabilities (gross)	Recognized financial liabilities (net)	Effect of framework netting agreements	Net amounts
Liabilities to banks	97,707	97,707	0	97,707
Other financial liabilities - derivative financial instruments with a negative fair value	3,844	3,844	(1,011)	2,834
Total	**101,550**	**101,550**	**(1,011)**	**100,540**

Offsetting financial assets and liabilities (previous year) EUR '000

Financial assets as at 31/12/2016	Financial assets (gross)	Recognized financial assets (net)	Effect of framework netting agreements	Net amounts
Cash and cash equivalents	559,599	559,599	0	559,599
Other financial assets - derivative financial instruments with a positive fair value	2,332	2,332	(1,552)	781
Total	**561,931**	**561,931**	**(1,552)**	**560,380**

EUR '000

Financial liabilities as at 31/12/2016	Financial liabilities (gross)	Recognized financial liabilities (net)	Effect of framework netting agreements	Net amounts
Liabilities to banks	180,504	180,504	0	180,504
Other financial liabilities - derivative financial instruments with a negative fair value	11,652	11,652	(1,552)	10,100
Total	**192,154**	**192,154**	**(1,552)**	**190,602**

Transfer of financial assets (sale of receivables/factoring)

Factoring agreements are in place which require the banks to purchase certain trade receivables from the Lenzing Group for a revolving monthly nominal amount. The Lenzing Group is entitled to sell these receivables. The agreements have indefinite terms, whereby each party has the right to cancel the agreements with notice and allow them to expire. All of the sold receivables are current receivables due within one year.

The sold receivables are exposed to certain risks which are relevant for risk assessment: credit default risk, currency risk for foreign currency receivables and the risk of delayed payments. The major opportunities and risks associated with these receivables are credit risk defaults and, for receivables denominated in foreign currencies, exchange rate fluctuations. The risk of delayed payments is carried by the Lenzing Group for all factoring agreements and is considered minor.

An agreement for the sale of receivables in the reporting currency (hereafter referred to as "Tranche 1") requires the bank to carry the entire credit default risk, which means all opportunities and risks are principally transferred to the bank.

The other agreements (hereafter referred to as "Tranche 2") require the Lenzing Group to assume a 10 percent liability for each payment default. This amount is not reimbursable by another party and is not advanced by the bank. The remaining credit default risk (90 percent per payment default) and – in the case of receivables not denominated in the reporting currency – the currency risk are carried by the bank. The Lenzing Group and the bank therefore share the significant opportunities and risks, but the right to dispose of the receivables is transferred to the bank. The Lenzing Group is required to conclude credit insurance for the sold receivables and is also responsible for accounts receivable management. The participating banks have the right to return overdue receivables to the Lenzing Group for procedural reasons in the event of a legal dispute. However, this does not reassign the credit default risk to or affect the liquidity of the Lenzing Group.

The factoring agreements had a maximum usable nominal volume of EUR 72,336 thousand as at December 31, 2017 (December 31, 2016: EUR 88,436 thousand). Of this total, EUR 0 thousand were classified under Tranche 1 (December 31, 2016: EUR 4,100 thousand) and EUR 72,336 thousand under Tranche 2 (December 31, 2016: EUR 84,336 thousand).

The purchase of receivables within the context of the factoring agreement was adjusted in 2017 to eliminate prepayments for purchased receivables and eliminate the assumption of the credit default risk by the bank. The usable nominal volume was also adjusted. Receivables of EUR 0 thousand were sold on the basis of factoring agreements and derecognized in the Lenzing Group's consolidated statement of financial position as at December 31, 2017 (December 31, 2016: EUR 83,327 thousand). Of this total, EUR 0 thousand (December 31, 2016: EUR 2,718 thousand) were classified under Tranche 1 and EUR 0 thousand under Tranche 2 (December 31, 2016: EUR 80,609 thousand). The amount attributable to Tranche 2 that was not advanced totaled EUR 8,065 thousand as at December 31, 2016 and was presented under other current assets. The fair values represent the indicated carrying amounts, in particular because the remaining terms of the relevant receivables are short.

The above-mentioned component of Tranche 2 that was not advanced corresponds to the theoretical maximum credit risk-related loss for the liability assumed in the event of default from the Lenzing Group's perspective. The fair value of this liability equaled EUR 0 thousand as at December 31, 2017 (December 31, 2016: EUR 154 thousand; also see note 42). No other current liabilities (financial) were recognized as at December 31, 2017 (December 31, 2016: EUR 339 thousand) for the assumed obligations and risks from the factoring agreements. A total of EUR 0 thousand was recognized through profit or loss in 2017 (December 31, 2016: EUR 14 thousand). A cumulative amount of EUR 339 thousand has been recognized in profit or loss since the start of the agreement. A total of EUR 315 thousand was recognized in profit or loss on the date the receivables were transferred.

Payments received from customers between the last advance by the bank and December 31 are accrued under other current liabilities (financial).

The banks are entitled to sell receivables back to the Lenzing Group at their nominal value. Such repurchases would have no effect on the allocation of credit risk defaults because this risk is not reassigned. The cash outflows resulting from the repurchases would follow quickly, over the short-term, if at all. Any utilization of the payment default guarantee would also follow quickly, over the short-term. This right is not expected to be utilized for the receivables sold as at the reporting date.

Note 36. Net interest and net result from financial instruments and net foreign currency result

Net interest and net result

The following table shows the net interest and net result from financial instruments by class/measurement category in accordance with IAS 39:

Net interest and net result from financial instruments EUR '000

2017	From interest income	From interest expense	Net interest	From subsequent measurement at fair value directly in equity	From impairment	Net result (total)
Loans and receivables	2,804	0	**2,804**	0	(1,762)[1]	**1,041**
Available-for-sale financial assets	502	0	**502**	2,718	0	**3,220**
Financial liabilities measured at amortized cost	0	(13,759)	**(13,759)**	0	0	**(13,759)**
Total	**3,305**	**(13,759)**	**(10,454)**	**2,718**	**(1,762)**	**(9,498)**

1) Incl. measurement of non-current financial assets

Net interest and net result from financial instruments (previous year) EUR '000

2016	From interest income	From interest expense	Net interest	From subsequent measurement at fair value directly in equity	From impairment	Net result (total)
Loans and receivables	1,239	0	**1,239**	0	(2,128)[1]	**(889)**
Available-for-sale financial assets	405	0	**405**	1,189	0	**1,594**
Financial liabilities measured at amortized cost	0	(18,760)	**(18,760)**	0	0	**(18,760)**
Total	**1,644**	**(18,760)**	**(17,116)**	**1,189**	**(2,128)**	**(18,055)**

1) Incl. measurement of non-current financial assets

The net result from financial instruments comprises the following: net interest (current interest income and expenses, including the amortization of premiums and discounts and dividends from companies not accounted for using the equity method), gains/losses on fair value measurement which are recognized in profit or loss or directly in equity and the result of impairment losses (recognition and reversal of bad debt provisions/valuation adjustments) and on disposals. Income from available-for-sale financial assets includes gains/losses from remeasurement and from the reclassification of remeasurement gains/losses to profit or loss. Net result from financial instruments does not include exchange rate gains/losses (with the exception of financial instruments carried at fair value through profit or loss) or gains/losses from hedging instruments (cash flow hedges).

The change in the bad debt provisions for receivables measured at amortized cost is reported under other operating expenses.

The component recognized directly in equity from the subsequent measurement of available-for-sale financial assets at fair value is reported under the reserve for available-for-sale financial assets. The remaining components of net result are included under income from non-current and current financial assets and in financing costs.

Expenses of EUR 1,027 thousand were recognized under other operating expenses for the provision of loans in 2017 (2016: EUR 2,114 thousand).

Net foreign currency result

Net foreign currency gains/losses are included in the following items: EUR minus 14,582 thousand (2016: EUR minus 3,113 thousand) in other operating income/expenses, EUR minus 1,551 thousand (2016: EUR minus 511 thousand) in income from non-current and current financial assets and EUR plus 1,310 thousand (2016: EUR minus 380 thousand) in financing costs.

Note 37. Financial risk management

As an international company, the Lenzing Group is exposed to financial and other market risks. A company-wide risk management system, which is regulated comprehensively in guidelines, has been implemented to identify and assess potential risks at an early stage. This system is designed to achieve maximum risk transparency and provide high-quality information by quantifying all risk categories, with a particular emphasis on risk concentration. The efficiency of group-wide risk management is evaluated and monitored on an ongoing basis by both the internal control system (ICS) and the internal audit department.

The financial risks arising from financial instruments – credit risk, liquidity risk, currency risk (above all with regard to the USD, CNY and CZK), commodity price risk and interest rate risk – are classified as relevant risks for the Lenzing Group. Corresponding hedging measures are used to minimize these risks wherever possible. Acquired shares in external companies are considered long-term investments and, therefore, are not viewed as a relevant market price risk over the short- to medium-term.

Credit risk

Credit risk represents the risk of asset losses that may result from the failure of individual business partners to meet their contractual obligations. The credit risk from transactions involving the provision of goods and services (in particular, trade receivables) is secured to a substantial extent by credit insurance and bank security (guarantees, letters of credit, bills of exchange etc.). Outstanding receivables and customer limits are monitored on an ongoing basis. The credit risk from investments with banks (above all, cash and cash equivalents) and derivatives with a positive market value is reduced by only concluding transactions with counterparties that can demonstrate a sound credit rating.

Receivables are measured individually. Individual bad debt provisions are recognized for receivables if they are not expected to be collectible in full. This applies especially when the debtor has significant financial difficulties, is in default or has delayed payments or when there is an increased probability that the debtor will enter bankruptcy and the involved receivable is not sufficiently collateralized. The historical default rates for receivables are low because of the Lenzing Group's comprehensive receivables management (extensive collateralization with credit insurance and bankable security as well as continuous monitoring of accounts receivable and customer limits). Therefore, group (collective) bad debt provisions are not recognized.

Any indications of impairment (in particular substantial financial difficulties on the part of the debtor, default or delay in payments, an increased probability that the debtor will enter bankruptcy proceedings) result in the write-down of non-collateralized financial assets through profit or loss. Bad debt provisions are principally recognized through an allowance account. Financial assets are only derecognized directly if the contractual rights to payments cease to exist (particularly in the event of bankruptcy). An impairment loss is reversed up to cost if the reasons for its recognition no longer exist.

The Group considers the risk concentration in trade receivables as rather low because its customers are based in various countries, operate in different sectors and are active on largely independent markets. A rather small amount of the receivables is overdue but not impaired (see the table "aging of receivables").

The bad debt provisions developed as follows:

Development of bad debt provisions EUR '000

	Originated loans	Trade receivables	Other financial receivables (non-current and current)
Bad debt provisions as at 01/01/2016	**2,423**	**10,856**	**5,217**
Changes in the scope of consolidation	0	0	0
Utilization	0	(827)	0
Reversal	(4)	(1,186)	(206)[1]
Addition	10	3,309	205
Currency translation adjustment	0	(143)	0
Bad debt provisions as at 31/12/2016 = 01/01/2017	**2,429**	**12,008**	**5,216**
Changes in the scope of consolidation	0	0	0
Utilization	0	(566)	(5,311)
Reversal	(8)	(283)	0
Addition	0	864	1,190[1]
Currency translation adjustment	1	(139)	0
Bad debt provisions as at 31/12/2017	**2,422**	**11,884**	**1,095**

1) Incl. measurement of non-current financial assets

The bad debt provisions for trade receivables include bad debt provisions of EUR 2,750 thousand (2016: EUR 2,000 thousand) for companies accounted for using the equity method.

The bad debt provisions for trade receivables are related primarily to bad debt provisions for overdue, uninsured receivables.

The carrying amount of the impaired receivables is as follows:

Carrying amount of impaired receivables as at December 31, 2017 EUR '000

	Originated loans	Trade receivables	Other financial receivables (non-current and current)
Before bad debt provision	2,422	16,761	2,480
After bad debt provision	0	4,877	1,385

Carrying amount of impaired receivables as at December 31, 2016 (previous year) EUR '000

	Originated loans	Trade receivables	Other financial receivables (non-current and current)
Before bad debt provision	2,429	16,352	5,516
After bad debt provision	0	4,343	300

The age structure of the financial receivables is shown in the following table:

Aging of receivables EUR '000

	Originated loans	Trade receivables	Other financial receivables (non-current and current)
Carrying amount as at 31/12/2017	16,095	292,770	40,030
Thereof not impaired at the reporting date and:			
Not overdue	16,095	267,179	38,646
Overdue up to 30 days	0	17,108	0
Overdue for 31 to 90 days	0	3,237	0
Overdue for 91 to 365 days	0	370	0
Overdue for more than one year	0	0	0
Thereof impaired	0	4,877	1,385

Aging of receivables (previous year) EUR '000

	Originated loans	Trade receivables	Other financial receivables (non-current and current)
Carrying amount as at 31/12/2016	7,339	277,407	62,239
Thereof not impaired at the reporting date and:			
Not overdue	7,339	261,730	61,939
Overdue up to 30 days	0	8,920	0
Overdue for 31 to 90 days	0	2,200	0
Overdue for 91 to 365 days	0	211	0
Overdue for more than one year	0	3	0
Thereof impaired	0	4,343	300

There are currently no doubts concerning the collectability of financial assets that are neither past due nor impaired.

The maximum exposure to credit risk from recognized financial assets is as follows:

Maximum exposure to credit risk from recognized financial assets EUR '000

	31/12/2017	31/12/2016
Carrying amount of asset financial instruments (see note 35)	675,697	924,313
Less risk reduction in relation to receivables due to		
Credit insurance received (not including deductibles)	(125,048)	(138,343)
Guarantees received	(9,330)	(5,568)
Total	**541,319**	**780,403**

The maximum exposure to credit risk from financial guarantee contracts and contingent liabilities is shown in note 42.

Liquidity risk

Liquidity risk represents the risk of not being able to obtain sufficient funds to settle incurred liabilities at all times. The management of liquidity risk has a high priority in the Lenzing Group. Corporate guidelines require uniform, proactive liquidity forecasts and medium-term planning throughout the entire Group. The Lenzing Group continuously monitors the risk of a possible liquidity shortage.

The Lenzing Group had liquid assets totaling EUR 315,822 thousand (December 31, 2016: EUR 570,351 thousand) in the form of cash and cash equivalents, liquid securities and liquid bills of exchange (see note 34). Unused credit facilities of EUR 213,754 thousand were available as at December 31, 2017 (December 31, 2016: EUR 217,654 thousand) to finance necessary working capital and to cover any shortfalls caused by economic cycles. The medium- and long-term financing for the Lenzing Group is provided by equity and financial liabilities, in particular bonds, private placements and bank loans. Current financial liabilities can regularly be extended or refinanced with other lenders. Trade payables provide short-term financing for the goods and services purchased. The liabilities covered by reverse factoring agreements are settled in line with their agreed maturity, whereby the related cash outflows are included in liquidity planning. For this reason, the Group considers the concentration of risk with regard to sufficient financing sources as rather low.

The contractually agreed (undiscounted) interest and principal payments for primary financial liabilities (including financial guarantee contracts) are shown below:

Maturity analysis of non-derivative financial liabilities EUR '000

	Carrying amount 31/12/2017	Cash flows 2018	Cash flows 2019 to 2022	Cash flows from 2023
Bond	0	0	0	0
Private placements	248,568	34,400	214,343	21,755
Liabilities to banks	97,707	94,399	6,094	0
Liabilities to other lenders	34,473	6,774	26,551	1,912
Finance lease liabilities	1,852	128	448	2,175
Trade payables	218,433	218,433	0	0
Provisions (current – financial)	26,509	26,509	0	0
Puttable non-controlling interests	17,967	0	0	17,967
Other financial liabities[1]	4,032	4,032	0	0
Total	**649,540**	**384,675**	**247,435**	**43,809**
Thereof:				
Fixed interest		4,578	11,435	2,121
Fixed and floating rate interest		149	319	7
Floating rate interest		3,566	3,623	0
Repayment		376,382	232,058	41,681

1) The above includes the maximum possible payment obligations from financial guarantee contracts granted. The amounts are assumed to be due in the first year.

Maturity analysis of non-derivative financial liabilities (previous year) EUR '000

	Carrying amount 31/12/2016	Cash flows 2017	Cash flows 2018 to 2021	Cash flows from 2022
Bond	119,922	124,650	0	0
Private placements	248,457	5,393	117,611	152,758
Liabilities to banks	180,504	127,519	57,929	0
Liabilities to other lenders	25,875	5,881	20,311	210
Finance lease liabilities	2,756	185	595	6,501
Trade payables	227,208	227,208	0	0
Provisions (current – financial)	26,309	26,309	0	0
Puttable non-controlling interests	12,970	0	0	12,970
Other financial liabities[1]	33,460	33,460	1	0
Total	**877,461**	**550,606**	**196,446**	**172,440**
Thereof:				
Fixed interest		9,233	13,520	8,170
Fixed and floating rate interest		116	193	0
Floating rate interest		4,968	4,655	555
Repayment		536,290	178,078	163,715

1) The above includes the maximum possible payment obligations from financial guarantee contracts granted. The amounts are assumed to be due in the first year.

The above tables include all primary financial liabilities held at the reporting date, but exclude estimated future liabilities. Foreign currency amounts were translated with the spot exchange rate in effect at the reporting date. Floating rate interest payments were calculated according to the last interest rates set before the reporting date. Financial liabilities that are repayable at any time are always assigned to the earliest time period.

The contractually agreed (undiscounted) interest and principal payments for derivative financial instruments are as follows:

Maturity analysis of derivative financial instruments EUR '000

	Carrying amount 31/12/2017	Cash flows 2018	Cash flows 2019 to 2022	Cash flows from 2023
Currency derivatives				
Derivatives with a positive fair value (cash flow hedges)	7,485	7,185	300	
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)	5,185	5,185	0	
Positive fair value	**12,670**	**12,370**	**300**	**0**
Derivatives with a negative fair value (cash flow hedges)	(2,528)	(1,967)	(561)	
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)	(1,316)	(1,316)	0	
Negative fair value	**(3,844)**	**(3,283)**	**(561)**	**0**
Total	**8,826**	**9,087**	**(261)**	**0**

Cash flows consist solely of principal payments and do not include any interest components. Fair value: + = receivable, - = liability from the Lenzing Group's perspective.

Maturity analysis of derivative financial instruments (previous year) EUR '000

	Carrying amount 31/12/2016	Cash flows 2017	Cash flows 2018 to 2021	Cash flows from 2022
Currency derivatives				
Derivatives with a positive fair value (cash flow hedges)	1,603	641	961	
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)	730	730	0	
Positive fair value	**2,332**	**1,371**	**961**	**0**
Derivatives with a negative fair value (cash flow hedges)	(9,253)	(8,955)	(298)	
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)	(2,399)	(2,399)	0	
Negative fair value	**(11,652)**	**(11,354)**	**(298)**	**0**
Total	**(9,319)**	**(9,983)**	**663**	**0**

Cash flows consist solely of principal payments and do not include any interest components. Fair value: + = receivable, - = liability from the Lenzing Group's perspective.

Currency risk

Cash flows from capital expenditures and the operating business as well as investments and financing in foreign currencies expose the member companies of the Lenzing Group to currency risks. Risks from foreign currencies are hedged as far as possible if they influence the Group's cash flows. In the operating business, the individual group companies are exposed to currency risk in connection with planned incoming and outgoing payments outside their functional currency. Forward foreign exchange contracts, which are recognized at fair value, are used to hedge the exchange rate risk from foreign currency positions arising from expected future transactions in foreign currencies by group companies.

The Lenzing Group operates a fiber production plant in Grimsby, Great Britain. From the current point of view, the GBP devaluation caused by the Brexit referendum is not expected to have any material effects on the Grimsby location or the remainder of the Lenzing Group because the invoices issued by Grimsby are generally not denominated in GBP. The expenses recorded by the Grimsby plant are, for the most part, denominated in GBP and therefore have no negative foreign currency effect. The further development of this situation and its effects on the Lenzing Group cannot be estimated at the present time.

For companies with the same functional currency, the respective net foreign currency exposures are calculated for the following sales year as part of the budgeting process. Foreign currency purchases and sales are aggregated into separate groups for each currency. Approximately 55 percent of the budgeted net exposure for the following financial year was hedged for EUR/USD, the dominant currency pair in the Lenzing Group, as at December 31, 2017 (December 31, 2016: approximately 58 percent). The CNY also plays an important role. The resulting risk concentration at the reporting date can be seen in the following tables (especially the tables on “sensitivity analysis and risk exposure for foreign currency risks”).

Translation risk is also regularly assessed and monitored at the Group level. Translation risk represents the risk arising from the consolidation of foreign investments whose functional currency is not the euro. The greatest risk exposure here is in relation to the US dollar.

Instruments to hedge currency risk

Cash flow hedges are allocated to revenue from the operating business in the following financial years in the respective hedged currency. Cash flow hedges whose underlying hedged item was already recognized in profit or loss are used to hedge foreign currency receivables/liabilities that were recognized at the reporting date but do not impact cash until a later time. The ineffective portion of the cash flow hedges amounted to EUR 0 thousand in 2017 (2016: EUR 0 thousand).

Cash flow hedges for currency risks

The nominal values and fair values of the cash flow hedges are as follows as at the reporting dates:

Nominal value, fair value and hedging period of cash flow hedge derivatives for currency risks EUR '000

	31/12/2017						31/12/2016					
		Nominal value in '000	Positive fair value	Negative fair value	Net fair value	Hedging period until		Nominal value in '000	Positive fair value	Negative fair value	Net fair value	Hedging period until
Forward foreign exchange contracts												
CNY-sale / USD-buy	CNY	69,359	0	(321)	(321)	06/2019	CNY	55,438	194	0	194	06/2018
CNY/CNH-sale / EUR-buy	CNY/CNH	646,600	11	(723)	(712)	06/2019	CNY/CNH	532,430	1,078	(26)	1,052	08/2018
CNY/CNH-sale / GBP-buy	CNY/CNH	145,200	20	(141)	(121)	06/2019	CNY/CNH	150,730	297	(197)	100	06/2018
CZK-buy / EUR-sale	CZK	174,800	58	(29)	29	01/2019	CZK	0	0	0	0	n/a
EUR-sale / GBP-buy	EUR	8,380	44	(43)	1	01/2019	EUR	6,290	16	(19)	(3)	02/2018
USD-buy / CNY-sale	USD	39,540	0	(1,174)	(1,174)	03/2019	USD	17,900	0	(20)	(20)	11/2017
USD-sale / CZK-buy	USD	93,500	2,569	(98)	2,471	02/2019	USD	90,000	1	(3,248)	(3,248)	02/2018
USD-sale / EUR-buy	USD	193,294	4,589	0	4,589	07/2019	USD	183,770	17	(5,686)	(5,670)	02/2018
USD-sale / GBP-buy	USD	10,400	196	(1)	195	12/2018	USD	4,490	1	(56)	(55)	02/2018
Total			**7,485**	**(2,528)**	**4,957**				**1,603**	**(9,253)**	**(7,650)**	

Fair value: + = receivable, – = liability from the Lenzing Group's perspective
The hedging period represents the period for the expected cash flows and their recognition in profit or loss.

Cash flow hedges for currency risks with the hedged item already recognized in profit or loss

The following table shows the nominal values and fair values of cash flow hedges at the reporting dates in cases where the hedged item was already recognized in profit or loss:

Nominal value and fair value of cash flow hedge derivatives for currency risks with the underlying already recognized in profit or loss EUR '000

	31/12/2017					31/12/2016				
		Nominal value in '000	Positive fair value	Negative fair value	Net fair value		Nominal value in '000	Positive fair value	Negative fair value	Net fair value
Forward foreign exchange contracts										
CNY-sale / USD-buy	CNY	35,577	0	(388)	(388)	CNY	17,800	82	0	82
CNY/CNH-sale / EUR-buy	CNY/CNH	613,700	635	(297)	338	CNY/CNH	566,620	643	(275)	368
CNY/CNH-sale / GBP-buy	CNY/CNH	78,800	0	(197)	(197)	CNY/CNH	83,365	0	(1,223)	(1,223)
CNY-buy/ EUR-sale	CNY	60,400	0	(2)	(2)	CNY	0	0	0	0
CZK-buy / EUR-sale	CZK	15,000	26	0	26	CZK	0	0	0	0
USD-buy / CNY-sale	USD	5,300	0	(367)	(367)	USD	0	0	0	0
EUR-sale / GBP-buy	EUR	3,360	1	(65)	(64)	EUR	830	4	(67)	(63)
USD-sale / CZK-buy	USD	9,600	1,223	0	1,223	USD	5,300	0	(270)	(270)
USD-sale / EUR-buy	USD	56,100	3,125	0	3,125	USD	10,100	0	(564)	(564)
USD-sale / GBP-buy	USD	5,390	175	0	175	USD	0	0	0	0
Total			**5,185**	**(1,316)**	**3,869**			**730**	**(2,399)**	**(1,669)**

Fair value: + = receivable, – = liability from the Lenzing Group's perspective

Sensitivity analysis and exposure for currency risks

The Lenzing Group uses the following assumptions for its sensitivity analysis:

- The sensitivity of profit or loss is based on the following: receivables and liabilities recognized by the group companies which are denominated in a currency other than the functional currency of the relevant company and open derivatives from cash flow hedges for currency risks in cases where the hedged item was already recognized in profit or loss as at the reporting date. The carrying amounts of the receivables and liabilities, respectively the nominal values of the derivatives, correspond to the exposure. The individual exposures are presented consistently in relation to the US dollar and euro for the aggregation to the Group's exposure.

The following tables show the sensitivities and exposure for currency risk as at the reporting dates:

- The sensitivity of other comprehensive income as at the reporting date is based on open derivatives from cash flow hedges for currency risks in cases where the hedged item was not yet recognized in profit or loss. The nominal value of the open derivatives corresponds to the exposure.

Sensitivity analysis and risk exposure for foreign currency risks (EUR) EUR '000

	31/12/2017			31/12/2016		
	Group exposure in relation to EUR	Sensitivity to 10 % devaluation of the EUR	Sensitivity to 10 % revaluation of the EUR	Group exposure in relation to EUR	Sensitivity to 10 % devaluation of the EUR	Sensitivity to 10 % revaluation of the EUR
EUR-USD	36,836	4,093	(3,349)	31,280	3,476	(2,844)
EUR-GBP	(877)	(97)	80	(3,266)	(363)	297
EUR-CNY/CNH	12,633	1,404	(1,148)	24,129	2,681	(2,194)
EUR-CZK	(511)	(57)	46	13,872	1,541	(1,261)
EUR-HKD	(2,165)	(241)	197	(3,304)	(367)	300
EUR-THB	(18,215)	(2,024)	1,656	0	0	0
Sensitivity of profit or loss (due to receivables and liabilities)		3,078	(2,518)		6,968	(5,701)
Sensitivity of other comprehensive income (due to cash flow hedge derivatives)		(26,643)	23,345		(27,106)	22,463
Sensitivity of equity		**(23,565)**	**20,826**		**(20,138)**	**16,762**

Group exposure: + receivable, – liability; sensitivity: + increase in profit/other comprehensive income, - decrease in profit/other comprehensive income

Sensitivity analysis and risk exposure for foreign currency risks (USD/GBP) EUR '000

	31/12/2017			31/12/2016		
	Group exposure in relation to USD/GBP	Sensitivity to 10 % devaluation of the USD/GBP	Sensitivity to 10 % revaluation of the USD/GBP	Group exposure in relation to USD/GBP	Sensitivity to 10 % devaluation of the USD/GBP	Sensitivity to 10 % revaluation of the USD/GBP
USD-IDR	6,113	679	(556)	69,851	7,761	(6,350)
USD-GBP	(302)	(34)	27	(164)	(18)	15
USD-HKD	(8)	(1)	1	165	18	(15)
USD-CNY/CNH	14,459	1,607	(1,314)	45,010	5,001	(4,092)
USD-CZK	(3,664)	(407)	333	(14,453)	(1,606)	1,314
GBP-CNY/CNH	(130)	(14)	12	(49,361)	(5,485)	4,487
Sensitivity of profit or loss (due to receivables and liabilities)		1,830	(1,497)		5,672	(4,641)
Sensitivity of other comprehensive income (due to cash flow hedge derivatives)		7,342	(5,400)		11,285	(8,922)
Sensitivity of equity		**9,171**	**(6,897)**		**16,957**	**(13,563)**

Group exposure: + receivable, – liability; sensitivity: + increase in profit/other comprehensive income, - decrease in profit/other comprehensive income

Commodity risk

Up to fall 2016 the Lenzing Group used OTC gas swaps in selected cases as cash flow hedges to manage gas price risks. These gas swaps expose the group to accounting-related price risks. The gas price risk has been physically hedged through supply contracts since fall 2016. The group is also subject to the usual market price risks in connection with its business activities (especially relating to wood, pulp and energy) which are not hedged with derivatives or financial instruments, but protected through other measures (above all, long-term and short-term supply contracts with various suppliers).

Interest rate risk

The Lenzing Group is exposed to interest rate risk through its business-related financing and investment activities. Interest rate risks arise through potential changes in the market interest rate. They can lead to a change in the fair value of fixed rate financial instruments and to fluctuations in the cash flows from interest payments for floating rate financial instruments. Interest rate risks and the resulting risk concentrations are managed by monitoring and adjusting the composition of fixed rate and floating rate primary financial instruments on an ongoing basis and by the selective use of derivative financial instruments.

Sensitivity analysis and exposure for interest rate risk

The following tables show the exposure for interest rate risks at the reporting dates in the form of the carrying amounts of interest-bearing primary financial instruments:

Risk exposure for interest rate risks EUR '000

	31/12/2017				
	Fixed interest	Fixed and floating rate interest	Floating rate interest	No interest	Total
Cash and cash equivalents	0	0	306,455	0	306,455
Financial assets[1]	9,444	0	0	26,998	36,442
Financial liabilities	(182,866)	(24,210)	(175,523)	0	(382,599)
Total	**(173,422)**	**(24,210)**	**130,932**	**26,998**	**(39,702)**

Risk exposure for interest rate risks (previous year) EUR '000

	31/12/2016				
	Fixed interest	Fixed and floating rate interest	Floating rate interest	No interest	Total
Cash and cash equivalents	0	0	559,599	0	559,599
Financial assets[1]	1,417	0	0	23,652	25,068
Financial liabilities	(301,252)	(16,575)	(259,686)	0	(577,513)
Total	**(299,836)**	**(16,575)**	**299,913**	**23,652**	**7,154**

+ Receivables, - liabilities
1) Includes, among others, the GF82 wholesale fund whose income is distributed or reinvested.

Sensitivity analyses are performed for the interest rate risks arising from floating rate financial instruments. They show the effects of hypothetical changes in interest rates on profit or loss, other comprehensive income and equity.

The Lenzing Group uses the following assumptions in its analysis of the interest rate risk arising from floating rate financial instruments:

- The sensitivity analysis includes all floating rate primary financial instruments as at the reporting date.
- The exposure corresponds to the carrying amount of the floating rate financial instruments.

The sensitivities and exposure for the interest rate risks arising from floating rate financial instruments are as follows as at the reporting dates:

Sensitivity analysis for interest rate risks from floating rate financial instruments **EUR '000**

31/12/2017	**Exposure with floating rate interest**	**Sensitivity to a 100 bp increase in the interest rate level**	**Sensitivity to a 100 bp decrease in the interest rate level**[1]
Cash and cash equivalents	306,455	3,065	(3,065)[2]
Financial liabilities	(175,523)	(1,758)	1,003[3]
Sensitivity of profit or loss/equity	**130,932**	**1,307**	**(2,062)**

Sensitivity analysis for interest rate risks from floating rate financial instruments (previous year) **EUR '000**

31/12/2016	**Exposure with floating rate interest**	**Sensitivity to a 100 bp increase in the interest rate level**	**Sensitivity to a 100 bp decrease in the interest rate level**[1]
Cash and cash equivalents	559,599	5,596	(5,596)[2]
Financial liabilities	(259,686)	(2,597)	1,836[3]
Sensitivity of profit or loss/equity	**299,913**	**2,999**	**(3,760)**

1) A reduction in the basis points results in a proportional decrease in the sensitivity.
2) Assumption that negative interest will we paid
3) The calculation excludes liabilities for which negative interest is not calculated.

Additional information on financial risk management and financial instruments is provided in the risk report of the Lenzing Group's management report as at December 31, 2017.

Note 38. Finance leases

Property, plant and equipment includes assets obtained through finance leases in which the Lenzing Group is the lessee. The finance leases include, among others, agreements for the modernization of small hydropower plants under which the lessor agrees to construct, operate and maintain power plants as part of the revitalization. All of the energy generated is purchased by Lenzing AG for a contractually agreed fee, part of which serves to cover the investment costs and is considered a contingent lease payment. The ownership of the power plants will be transferred to Lenzing AG after the agreements expire in exchange for the payment of a transfer fee. This lease has a term of 25 years. The Lenzing Group has also concluded finance leases for an industrial primary clarifier and related expansion investments. The ownership of the plant, including the land, can be transferred to Lenzing AG after the agreements expire in exchange for the payment of a transfer fee. This lease has a term of up to 16 years.

The Lenzing Group currently has no finance leases in which it serves as the lessor.

The carrying amount of the leased assets is as follows:

Carrying amount of leased assets EUR '000

2017	Land and buildings	Technical equipment and machinery, factory and office equipment	Total
Cost	8	5,782	5,790
Accumulated depreciation	0	(1,286)	(1,286)
Carrying amount as at 31/12/2017	**8**	**4,496**	**4,504**

Carrying amount of leased assets (previous year) EUR '000

2016	Land and buildings	Technical equipment and machinery, factory and office equipment	Total
Cost	668	5,782	6,449
Accumulated depreciation	(92)	(894)	(986)
Carrying amount as at 31/12/2016	**576**	**4,887**	**5,463**

The present value of minimum lease payments is as follows:

Minimum lease payments as lessee (finance leases) EUR '000

	31/12/2017				31/12/2016			
	< 1 year	1–5 years	> 5 years	Total	< 1 year	1–5 years	> 5 years	Total
Total future minimum lease payments	128	448	2,175	2,751	185	595	6,501	7,282
Thereof interest component	(12)	(21)	(866)	(899)	(16)	(43)	(4,466)	(4,526)
Total	**115**	**427**	**1,309**	**1,852**	**169**	**552**	**2,035**	**2,756**

Note 39. Operating leases

The Lenzing Group as the lessee

The Lenzing Group has obligations from rental and lease agreements for property, plant and equipment that are not recognized in the consolidated statement of financial position. Earnings before interest and tax in 2017 include expenses of EUR 14,308 thousand (2016: EUR 11,822 thousand) from rental and lease agreements. These expenses consist primarily of minimum lease payments.

The future minimum lease payments during the non-cancellable term of these leases relate to IT equipment, motor vehicles, rail cars and office and storage premises and are as follows, classified by year:

Minimum lease payments as lessee (operating leases) EUR '000

	31/12/2017	31/12/2016
In the following year	8,378	6,934
In the following 2–5 years	9,769	8,608
Thereafter	732	0
Total	**18,879**	**15,542**

The conditions of the main operating leases can be summarized as follows:

- IT equipment: The leases have a term of up to three years, and there are no price adjustment clauses.
- Motor vehicles: The leases have a term of up to five years. These agreements do not include an option to acquire the vehicles at the end of the contract term and there are no price adjustment clauses.
- Rail cars: The leases have a term of up to 12 years and can be canceled after a minimum period. Some of the leases have price adjustment clauses.
- Office and storage premises: The leases have a term of up to five years and do not include an option to purchase the office and storage premises at the end of the contract term. Some of the leases include extension options and price adjustment clauses.

The Lenzing Group as the lessor

The future minimum lease payments during the non-cancellable term of the leases relate primarily to land and buildings and are as follows, classified by year:

Minimum lease payments as lessor (operating leases) EUR '000

	31/12/2017	31/12/2016
In the following year	4,106	3,785
In the following 2–5 years	9,160	8,311
Thereafter	7,967	10,059
Total	**21,233**	**22,154**

The most important lease involves land on which a recycling plant is operated. The lease payments are indexed. The lease was concluded for an indefinite term and can be canceled at the earliest as at December 31, 2029, subject to a six-year notice period.

Disclosures on Related Parties and Executive Bodies

Note 40. Related party disclosures

Overview

Related parties of the Lenzing Group include, in particular, the member companies of the B&C Group together with its subsidiaries, joint ventures and associates and its corporate bodies (executive board/management and supervisory board, where applicable) as well as close relatives of the members of the corporate bodies and companies under their influence (see note 1 "Description of the company and its business activities " and note 41). The amounts and transactions between Lenzing AG and its consolidated subsidiaries are eliminated during the consolidation and are not discussed further in this section.

B&C Privatstiftung is managed by a board of trustees. No member of the Management Board of Lenzing AG is a member of this board of trustees or the management/management board of a subsidiary of B&C Privatstiftung, with the exception of subsidiaries of the Lenzing Group. The Lenzing Group has no influence over the business activities of B&C Privatstiftung.

The members of the corporate bodies of Lenzing AG (in particular, the Supervisory Board) and the above-mentioned entities are, in some cases, also members of the corporate bodies or shareholders of other companies with which Lenzing AG maintains ordinary business relationships. The Lenzing Group maintains ordinary business relationships with banks that involve financing, investment and derivatives.

Relationships with related companies

In connection with the tax group established with B&C Group (see note 30), the Lenzing Group recognized a tax liability of EUR 217 thousand through profit or loss in 2017 (2016: tax credit of EUR 1,266 thousand). Contractual obligations resulted in the payment or advance payment of tax allocations totaling EUR 50,072 thousand in 2017 (2016: EUR 29,187 thousand). The Lenzing Group recognized a liability of EUR 4,671 thousand to B&C Group from the tax allocation, after the deduction of advance payments, as at December 31, 2017 (December 31, 2016: EUR 12,036 thousand). Income tax expense of EUR 42,718 thousand was recognized in 2017 as a result of the tax allocation to B&C Group (2016: EUR 34,244 thousand).

Relationships with companies accounted for using the equity method and their material subsidiaries

Transactions with companies accounted for using the equity method and their material subsidiaries relate primarily to:

Material relationships with companies accounted for using the equity method

EQUI-Fibres Beteiligungsgesellschaft mbH and its subsidiaries (EFB)	Distribution of fibers, delivery of pulp, loan assignment
Lenzing Papier GmbH (LPP):	Provision of infrastructure and administrative services
RVL Reststoffverwertung Lenzing GmbH (RVL):	Operation of a recycling plant and purchase of the generated steam; rental of land
Gemeinnützige Siedlungsgesellschaft m.b.H. für den Bezirk Vöcklabruck (GSG):	Provision of infrastructure and administrative services
PT. Pura Golden Lion (PGL):	Loan liability
Wood Paskov s.r.o. (LWP):	Purchase of wood

The scope of material transactions and the outstanding balances with companies accounted for using the equity method and their major subsidiaries are as follows:

Relationships with companies accounted for using the equity method and their material subsidiaries EUR '000

	Associates		Joint ventures	
	2017	**2016**	**2017**	**2016**
Goods and services provided and other income	76,645	65,952	11,471	11,056
Goods and services received and other expenses	35,685	43,108	11,623	11,218
	31/12/2017	**31/12/2016**	**31/12/2017**	**31/12/2016**
Receivables	21,020	11,385	12	10
Liabilities	5,347	4,116	7	13

Bad debt provisions of EUR 750 thousand for trade receivables from companies accounted for using the equity method were recognized to profit or loss as expense in 2017 (2016: income of EUR 104 thousand). In 2016 European Precursor GmbH, Kelheim, Germany, an unconsolidated subsidiary, made payments of EUR 950 thousand for receivables due to Lenzing AG in connection with its liquidation. There were no material transactions with the other unconsolidated subsidiaries in 2017 or 2016.

Kelheim Fibers GmbH, Kelheim, Germany, a subsidiary of the equity-accounted investee EQUI-Fibres Beteiligungsgesellschaft mbH, Kelheim, Germany, received a long-term, unsecured loan of EUR 5,000 thousand from Lenzing AG in 2017. The interest reflects standard bank rates.

Relationships with members of the Management Board and Supervisory Board of Lenzing AG

The fixed and variable current remuneration recognized by Lenzing AG for the active members of the Management Board are as follows:

Fixed and variable current remuneration expensed for active members of the Management Board — EUR '000

	Stefan Doboczky		Robert van de Kerkhof		Thomas Obendrauf[1]		Heiko Arnold[2]		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Fixed current remuneration	643	651	437	437	397	347	328	0	1,805	1,435
Variable current remuneration	1,732	783	654	392	760	227	181	0	3,326	1,402
Total	**2,374**	**1,434**	**1,091**	**829**	**1,157**	**574**	**509**	**0**	**5,131**	**2,837**

1) Member of the Management Board since March 1, 2016.
2) Member of the Management Board since May 1, 2017.

The above total of EUR 5,131 thousand reported for 2017 (2016: EUR 2,837 thousand) includes short-term employee benefits (fixed and variable current remuneration). The active members of the Management Board were also granted post-employment benefits of EUR 216 thousand (2016: EUR 143 thousand) in the form of company pension and severance plans. In addition, the provisions for the entitlements from long-term bonus models for active members of the Management Board (other long-term employee benefits) were increased by EUR 1,501 thousand through profit or loss in 2017 (2016: EUR 373 thousand).

For all members of the Management Board, the benchmark for the long-term bonus component is the increase in the value of the Lenzing Group, computed according to an agreed formula, over a period of several years (also including EBITDA and net debt). The bonus payments are dependent on the attainment of a minimum increase in value and have an upper limit. If an offer by the company to extend the employment contract is rejected after the end of the current contract term, any existing bonus claim is reduced accordingly. Payment is made in cash and is classified as other long-term employee benefits in accordance with IAS 19.

In connection with the reappointment of Stefan Doboczky in December 2017 for the period from June 1, 2018 to December 31, 2022 ("new contract"), the agreed partial payment in the form of shares based on the employment contract for the period from June 1, 2015 to May 31, 2018 ("old contract") was converted to full cash payment. The settlement in equity instruments under the old contract (50 percent) was recognized as a share-based payment under IFRS 2 up to December 2017. Up to the amendment of the payment modalities under Stefan Doboczky's old contract, EUR 743 thousand were recognized as an expense in 2017 for the bonus entitlement to be settled in equity instruments (2016: EUR 743 thousand) and reported under personnel expenses. At the same time, retained earnings were increased by an equal amount. The valuation of the share-based payment followed the procedure applied in previous years, i.e. including discounting effects and the probability of utilization, but excluding expected dividends. The change to full cash settlement resulted in the classification of the commitment under other long-term employee benefits in accordance with IAS 19 and a reclassification from retained earnings to provisions.

The long-term bonus for Stefan Doboczky under the old contract will be paid equally in 2018 and 2019, unless he resigns before that time. The long-term bonus under the new contract will be paid 50 percent in 2023 and 25 percent each in 2024 and 2025, unless he resigns by December 31 of the respective previous year.

Following the end of the three-year contract term in each case, payment to Thomas Obendrauf will be made in 2019 and to Robert van de Kerkhof and Heiko Arnold in 2020. A further secondary condition for Heiko Arnold to meet the full entitlement is the extension of his Management Board contract. The same secondary condition also applies to Thomas Obendrauf. Since Thomas Obendrauf has not met this condition to date, a provision was not recognized in the financial statements as at December 31, 2017.

The expenses for the active members of the Supervisory Board of Lenzing AG (short-term employee benefits in the form of remuneration and attendance fees for the Supervisory Board members and change of provisions) amounted to EUR 789 thousand in 2017 (2016: EUR 855 thousand).

The remuneration expensed for key management personnel, which comprises the active members of the Management Board and Supervisory Board of Lenzing AG, in line with their functions is summarized below (including changes in provisions):

Remuneration for key management personnel (expensed) — EUR '000

	2017	2016
Remuneration for the Management Board		
Short-term employee benefits	5,131	2,837
Other long-term employee benefits	1,501	373
Post-employment benefits	216	143
Share-based remuneration	743	743
Remuneration for the Management Board	**7,592**	**4,095**
Remuneration for the Supervisory Board		
Short-term employee benefits	789	855
Total	**8,381**	**4,950**

The employee representatives on the Supervisory Board who were delegated by the Works Council are entitled to regular compensation (wage or salary plus severance and jubilee benefits) under their employment contracts. This compensation represents appropriate remuneration for their role/activities performed in the company.

In line with customary market and corporate practice, Lenzing AG also grants additional benefits, which are considered non-cash benefits, to the members of the Management Board, selected senior executives and Supervisory Board members. One example of such benefits is insurance coverage (D&O, accident, legal protection etc.), whereby the costs are carried by the Lenzing Group. The insurers receive total premium payments, i.e. there is no specific allocation to the Management Board and the Supervisory Board. In addition, the members of the Management Board and selected senior executives are provided with company vehicles. The members of the Management Board and the Supervisory Board are also reimbursed for certain costs incurred, above all travel expenses. The principles of the remuneration system for the Management Board and the Supervisory Board are described in detail and disclosed in the 2017 corporate governance report of the Lenzing Group.

The members of the Management Board and Supervisory Board received no advances, loans or guarantees. The Lenzing Group has not entered into any contingencies on behalf of the Management Board or Supervisory Board. Directors' dealings reports relating to the members of the Management Board and Supervisory Board are published on the Austrian Financial Market Authority website (see http://www.fma.gv.at).

Post-employment benefits of EUR 342 thousand (2016: EUR 910 thousand) were recognized for former members of the Management Board of Lenzing AG or their surviving dependents in the form of expenses on the income statement and allocations to other comprehensive income. The present value of the pension provision recognized in this context, after deduction of the fair value of plan assets (net obligation), amounted to EUR 7,133 thousand as at December 31, 2017 (December 31, 2016: EUR 7,512 thousand).

Note 41. Executive Bodies

Members of the Supervisory Board

- Hanno Bästlein, Vienna, Chairman
- Felix Strohbichler, Anthering, Deputy Chairman
- Veit Sorger, Vienna, Deputy Chairman
- Helmut Bernkopf, Vienna
- Franz Gasselsberger, MBA, Linz
- Josef Krenner, Linz
- Patrick Prügger, Vienna
- Astrid Skala-Kuhmann, Icking (Germany)
- Andreas Schmidradner, Vienna (up to March 1, 2016)

Appointed by the Works Council

- Johann Schernberger, Regau, Chairman of the Works Committee, Chairman of the Works Council for Waged Employees
- Georg Liftinger, Weyregg am Attersee, Deputy Chairman of the Works Committee, Chairman of the Works Council for Salaried Employees
- Helmut Kirchmair, Timelkam, Deputy Chairman of the Works Council for Waged Employees
- Daniela Födinger, Seewalchen am Attersee, Deputy Chairman of the Works Council for Salaried Employees
- Franz Berlanda, Wolfsegg am Hausruck (up to March 1, 2016), Deputy Chairman of the Works Council for Waged Employees

Members of the Management Board

- Stefan Doboczky, Seewalchen am Attersee, Chief Executive Officer (CEO), Chairman of the Management Board
- Robert van de Kerkhof, Mondsee, Chief Commercial Officer (CCO), Member of the Management Board
- Thomas Obendrauf, Salzburg, Chief Financial Officer (CFO), Member of the Management Board (since March 1, 2016)
- Heiko Arnold, Salzburg, Chief Technology Officer (CTO), Member of the Management Board (since May 1, 2017)

Other Disclosures

Note 42. Financial guarantee contracts, contingent assets and liabilities, other financial obligations and legal risks

The Lenzing Group has entered into contingent liabilities of EUR 17,401 thousand (December 31, 2016: EUR 27,905 thousand), above all to secure claims related to the sale of certain equity investments and claims by suppliers, for possible default on sold receivables (also see note 35) and for claims by third parties outside the group. Less important contingent liabilities involve granted retentions. The reported amounts represent the maximum payment obligation from the viewpoint of the Lenzing Group, and there is only a limited potential for recoveries. The reported amount includes EUR 0 thousand (December 31, 2016: EUR 7,907 thousand) from financial guarantee contracts. Liabilities of EUR 0 thousand, which equal the fair value of these financial guarantee contracts, were recognized as at December 31, 2017 (December 31, 2016: EUR 154 thousand).

The Lenzing Group provides committed credit lines of EUR 19,486 thousand (December 31, 2016: EUR 0 thousand) to third parties. These credit lines were not in use as at December 31, 2017 (also see note 20).

The Lenzing Group carries obligations for severance payments and anniversary benefits for former employees of certain sold equity investments up to the amount of the notional claims at the sale date. Provisions were recognized for these obligations as at the reporting date at an amount equal to their present value calculated in accordance with actuarial principles. Lenzing AG, in particular, has also assumed liabilities to secure third-party claims against consolidated companies; these claims are considered unlikely to be realized. The Management Board is not aware of any other financial obligations with a significant impact on the financial position and financial performance of the Group.

The obligations arising from outstanding orders for intangible assets and property, plant and equipment amounted to EUR 123,737 thousand as at December 31, 2017 (December 31, 2016: EUR 34,913 thousand). The Lenzing Group has long-term purchase obligations related to raw material supplies, in particular for wood, chemicals and energy.

As an international corporation, the Lenzing Group is exposed to a variety of legal and other risks. These risks are related, above all, to product defects, competition and antitrust law, patent law, tax law, employees and environmental protection (in particular, for environmental damage at production locations). It is impossible to predict the outcome of pending or future legal proceedings, and rulings by the courts or government agencies or settlement agreements can lead to expenses that are not fully covered by insurance which could have a material impact on the group's future financial position and financial performance. Additional information is provided in the risk report of the Lenzing Group's management report as at December 31, 2017.

The Group is currently involved in various legal proceedings as a result of its operating activities, particularly in the area of patent law. The Management Board assumes the proceedings that are known at the present time will not have a significant impact on the group's current financial position and financial performance or has created sufficient provisions for the related risks.

Note 43. Group companies

In addition to Lenzing AG, the Lenzing Group includes the following companies (list of group companies in accordance with Section 245a Para. 1 in conjunction with Section 265 Para. 2 of the Austrian Commercial Code):

Group companies		31/12/2017		31/12/2016	
	Currency	Share capital	Share in %	Share capital	Share in %
Consolidated companies					
ASIA Fiber Engineering GmbH, Vienna, Austria[1]	EUR	36,336	100.00	36,336	100.00
Avit Investments Limited, Providenciales, Turks and Caicos	USD	2,201,000	100.00	2,201,000	100.00
Beech Investment s.r.o., Zlaté Moravce, Slovakia	EUR	6,639	100.00	6,639	100.00
Biocel Paskov a.s., Paskov, Czech Republic	CZK	280,000,000	100.00	280,000,000	100.00
BZL - Bildungszentrum Lenzing GmbH, Lenzing, Austria	EUR	43,604	75.00	43,604	75.00
Cellulose Consulting GmbH, Vienna[1]	EUR	36,336	100.00	36,336	100.00
Lenzing Elyaf Anonim Şirketi, Istanbul, Turkey	TRY	3,500,000	100.00	-	-
Lenzing Fibers (Shanghai) Co., Ltd., Shanghai, China	USD	200,000	100.00	200,000	100.00
Lenzing Fibers GmbH, Heiligenkreuz, Austria	EUR	363,364	100.00	363,364	100.00
Lenzing Fibers Grimsby Limited, Grimsby, UK	GBP	1	100.00	1	100.00
Lenzing Fibers Holding GmbH, Lenzing, Austria	EUR	35,000	100.00	35,000	100.00
Lenzing Fibers (Hongkong) Ltd., Hong Kong, China	HKD	16,000,000	100.00	16,000,000	100.00
Lenzing Fibers Inc., Axis, USA	USD	10	100.00	10	100.00
Lenzing Fibers Ltd., Manchester, UK	GBP	1	100.00	1	100.00
Lenzing Global Finance GmbH, Munich, Germany	EUR	25,000	100.00	25,000	100.00
Lenzing Holding GmbH, Lenzing, Austria	EUR	35,000	100.00	35,000	100.00
Lenzing Korea Yuhan Hoesa, Seoul, Republic of Korea	KRW	280,000,000	100.00	280,000,000	100.00
Lenzing Land Holding LLC., Dover, USA	USD	10,000	100.00	10,000	100.00
Lenzing Modi Fibers India Private Limited, Mumbai, India	INR	1,159,786,090	96.44	1,155,961,090	96.43
Lenzing (Nanjing) Fibers Co., Ltd., Nanjing, China	USD	64,440,000	70.00	64,440,000	70.00
Lenzing Singapore Pte. Ltd., Singapore, Republic of Singapore	EUR	1,000,000	100.00	1,000,000	100.00
Lenzing Technik GmbH, Lenzing, Austria	EUR	35,000	100.00	35,000	100.00
Lenzing (Thailand) Co., Ltd., Bangkok, Thailand	THB	721,000,000	100.00	-	-
Penique S.A., Panama, Panama	USD	5,000	100.00	5,000	100.00
PT. South Pacific Viscose, Purwakarta, Indonesia[2]	IDR	72,500,000,000	92.85	72,500,000,000	92.85
Pulp Trading GmbH, Lenzing, Austria	EUR	40,000	100.00	40,000	100.00
Reality Paskov s.r.o., Paskov, Czech Republic	CZK	900,000	100.00	900,000	100.00
Wasserreinhaltungsverband Lenzing – Lenzing AG, Lenzing, Austria[3]	EUR	0	Membership	0	Membership
Companies accounted for using the equity method					
Associates					
EQUI-Fibres Beteiligungsgesellschaft mbH, Kelheim, Germany	EUR	2,000,000	20.00	2,000,000	20.00
Gemeinnützige Siedlungsgesellschaft m.b.H. für den Bezirk Vöcklabruck, Lenzing, Austria[4]	EUR	1,155,336	99.90	1,155,336	99.90
Lenzing Papier GmbH, Lenzing, Austria	EUR	35,000	40.00	35,000	40.00
PT. Pura Golden Lion, Jakarta, Indonesia	IDR	2,500,000,000	40.00	2,500,000,000	40.00
WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H., Vienna, Austria	EUR	36,336	25.00	36,336	25.00
Joint ventures					
LKF Tekstil Boya Sanayi ve Ticaret Anonim Sirketi, Istanbul, Turkey[5]	TRY	-	-	200,000	33.34
RVL Reststoffverwertung Lenzing GmbH, Lenzing, Austria	EUR	36,336	50.00	36,336	50.00
Wood Paskov s.r.o., Paskov, Czech Republic	CZK	2,000,000	50.00	2,000,000	50.00
Unconsolidated companies					
European Precursor GmbH, Kelheim, Germany[6]	EUR	25,000	95.00	25,000	95.00
Lenzing Engineering and Technical Services (Nanjing) Co., Ltd., Nanjing, China[7]	USD	-	-	2,100,000	100.00
Tencel Holding Limited, Manchester, UK[7]	GBP	-	-	1	100.00

Comments:
1) The company is in liquidation.
2) The share held directly by the Lenzing Group equals 88.08 percent (December 31, 2016: 88.08 percent). A further 11.92 percent of the shares are held indirectly via PT. Pura Golden Lion, Jakarta, Indonesia, an associate of the Lenzing Group. The total calculated share therefore equals 92.85 percent.
3) The Lenzing Group participates through a membership. It holds 50 percent of the voting rights and can appoint half of the management board members. Since all assets are attributable to the respective landowner under company law, the entity is notionally a separate company (a so-called "silo structure"). Assets located on the Lenzing Group's land are therefore included in the consolidation.
4) This investment is not included in the consolidated financial statements as a subsidiary, even though the Lenzing Group holds 99.9 percent of the voting rights in the company. In light of the given circumstances, the Lenzing Group does not control this company because its power is limited and because the returns hardly vary or can hardly be influenced by the Lenzing Group. Significant influence is exercised by the Lenzing Group over the financial and operating policies of this company, in particular through representation on management bodies and participation in decision-making processes.
5) The shares in LKF Tekstil Boya Sanayi ve Ticaret Anonim Sirketi, Istanbul, Turkey, were sold during May 2017 (see note 3).
6) The company is in liquidation, which was largely completed from an economic perspective as at December 31, 2013. In accordance with the German Commercial Code, the company's equity on the liquidation balance sheet amounted to EUR minus 22,719 thousand as at December 9, 2016 (EUR minus 21,789 thousand as at December 9, 2015). The Lenzing Group does not expect any further material negative effects. This company is not included in the consolidation because it is immaterial from the Group's perspective.
7) The liquidation process was completed in 2017.

Note 44. Significant events after the end of the reporting period

The Lenzing Group is not aware of any significant events occurring after the reporting date on December 31, 2017 which would have resulted in a different presentation of its financial position and financial performance.

Note 45. Authorization of the consolidated financial statements

These consolidated financial statements were approved on March 6, 2018 (consolidated financial statements as at December 31, 2016: March 8, 2017) by the Management Board for review by the Supervisory Board, presentation to the Annual General Meeting and subsequent publication. The Supervisory Board may require changes to the consolidated financial statements as part of its review.

Lenzing, March 6, 2018
Lenzing Aktiengesellschaft

The Management Board

Stefan Doboczky
Chief Executive Officer
Chairman of the Management Board

Robert van de Kerkhof
Chief Commercial Officer
Member of the Management Board

Thomas Obendrauf
Chief Financial Officer
Member of the Management Board

Heiko Arnold
Chief Technology Officer
Member of the Management Board

Auditor's Report

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of Lenzing Aktiengesellschaft, Lenzing, and its subsidiaries (the Group), which comprise the consolidated Balance Sheet as at 31 December 2017, and the Consolidated Income Statement, Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and the Notes to the Consolidated Financial Statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31, December 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, Austrian Generally Accepted Accounting Principles as well as the additional requirements by § 245a UGB.

Basis for our Opinion

We conducted our audit in accordance with the EU Regulation 537/2014 ("EU Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group in accordance with Austrian Generally Accepted Accounting Principles and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. These matters were addressed in the context of our audit of the financial statements as a whole, however, we do not provide a separate opinion thereon.

Assets as well as credit line in connection with the partial sale of EQUI-Fibres Beteiligungsgesellschaft mbH

See Notes 20 – 22 and 42

Risk for the financial statements

As a result of the partial sale of EQUI-Fibres Beteiligungsgesellschaft mbH, the Company reports long-term loan receivables due from the buyer (including subsidiaries) amounting to EUR 13.0 mn as of the reporting date. These receivables are reported in financial assets. Furthermore, the Company granted the buyer an additional credit line in the amount of EUR 19.5 mn, which can be utilized by the buyer subject to the conditions described in the notes. Additionally, the Company reports other long-term assets of EUR 4.4 mn related to the performance based purchase price component.

The risk for the financial statements is an overstatement of the loan receivables reported in financial assets.

The amount of other long-term assets related to the performance based component of the purchase price is highly dependent on management's assessment.

Our response

To evaluate the opportunities and risks related to this transaction, we read the underlying share purchase agreement as well as additional agreements and reconciled the loan receivables per the agreement with the receivables recognized in the consolidated financial statements.

For the recoverability of the loan receivables reported in the consolidated financial statements, we evaluated information on the economic condition of the purchasing company as a group (current reporting/ business figures as well as mid-term planning). We assessed the validity of the mid-term planning by comparing the historical results with prior year's mid-term planning and discussing the development of earnings with the management of Lenzing Aktiengesellschaft.

We compared the valuation method of the performance based purchase price component with the underlying share purchase agreement, evaluated the methodology and critically assessed the derivation of the EBITDA figures used in the valuation from the current mid-term planning of EQUI-Fibres Beteiligungsgesellschaft mbH group. All assumptions included in the valuation of the performance based purchase price and estimates were discussed with management.

Impairment of assets in a production site in China

See Notes 28 and 19

Risk for the financial statement

In accordance with IAS 36 "Impairment of Assets", assets or cash-generating units (CGUs) are tested for impairment when there are any indications that these assets or CGUs may be impaired. On the basis of impairment tests performed in prior years, impairment charges were recognized on intangible assets as well as property, plant and equipment held in a production site in China. The carrying amount of these assets as at December 31, 2017 amounts to EUR 47.0 mn, net of accumulated impairment losses of EUR 31.3 mn.

Whether indications of impairment exist, or, in the case of CGUs, for which impairment losses have been recognized in the past, significant changes compared to the prior year, indicating that the impairment no longer exists, occurred, highly depends on management estimates.

Our response

We critically assessed the Company's documentation for indications that a significant change compared to the prior year might have occurred and discussed with management whether there might be any further indications of impairment or reversal of impairment loss. To verify management's conclusion that there are no indications, we discussed the CGU's earnings performance in the fiscal year, the mid-term planning and the development of sales prices, with the persons responsible.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, Austrian Generally Accepted Accounting Principles as well as the additional requirements under § 245a UGB and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for supervising the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misprepresentations or override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on Other Legal Requirements

Group Management Report

In accordance with the Austrian Generally Accepted Accounting Principles, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the group management report in accordance with the Austrian Generally Accepted Accounting Principles.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports as applied in Austria.

Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Group and its environment, we did not note any material misstatements in the group management report.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated financial statements, the group management report, and the auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information and to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact. If we conclude that there is a material misstatement of fact in other information, we must report that fact. We have nothing to report in this regard.

Additional Information in accordance with Article 10 EU Regulation

At the Annual General Meeting dated April 25, 2017, we were elected as auditors. We were appointed by the supervisory board on May 30, 2017. For the first time we are the Company's auditors for the annual financial statements ended December 31, 2017.

We declare that our opinion expressed in the *"Report on the Consolidated Financial* Statements" section of our report is consistent with our additional report to the Audit Committee, in accordance with Article 11 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 EU Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Group.

Engagement Partner

The engagement partner on this engagement is Mrs. Gabriele Lehner.

Linz, March 6, 2018

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Gabriele Lehner
Austrian Chartered Accountant

This report is a translation of the original report in German, which is solely valid.
The financial statements, together with our auditor's opinion, may only be published if the financial statements and the management report are identical with the audited version attached to this report. This auditor's report refers only to the complete German version of the consolidated financial statements complete with the management report. Section 281 Paragraph 2 UGB (Austrian Commercial Code) applies.

Declaration of the Management Board

Declaration of the Management Board according to Section 82 (4) No. 3 of the Stock Exchange Act

We confirm to the best of our knowledge that the consolidated financial statements of the Lenzing Group as at December 31, 2017 that were prepared in accordance with the applicable accounting standards pursuant to International Financial Reporting Standards (IFRSs) give a true and fair view of the assets, liabilities, financial position and profit or loss of the Lenzing Group and that the group management report gives a true and fair view of the development and performance of the business and the position of the Lenzing Group, together with a description of the principal risks and uncertainties the Lenzing Group faces.

Lenzing, March 6, 2018
Lenzing Aktiengesellschaft

The Management Board

Stefan Doboczky
Chief Executive Officer
Chairman of the Management Board

Robert van de Kerkhof
Chief Commercial Officer
Member of the Management Board

Thomas Obendrauf
Chief Financial Officer
Member of the Management Board

Heiko Arnold
Chief Technology Officer
Member of the Management Board

Lenzing Group Five-Year Overview

Key earnings and profitability figures

EUR mn	2017	2016	2015 [1]	2014 [1]	2013
Revenue	2,259.4	2,134.1	1,976.8	1,864.2	1,908.9
EBITDA (earnings before interest, tax, depreciation and amortization)	502.5	428.3	290.1	240.3	225.4
EBITDA margin	22.2%	20.1%	14.7%	12.9%	11.8%
EBIT (earnings before interest and tax)	371.0	296.3	151.1	21.9	86.4
EBIT margin	16.4%	13.9%	7.6%	1.2%	4.5%
EBT (earnings before tax)	357.4	294.6	147.4	12.0	68.1
Net profit/loss for the year	281.7	229.1	128.1	(25.1)	50.0
Earnings per share in EUR	10.47	8.48	4.78	(0.92)	1.89
ROCE (return on capital employed)	18.6%	15.1%	8.1%	(0.1)%	3.7%
ROE (return on equity)	24.5%	22.6%	13.0%	1.1%	6.0%
ROI (return on investment)	14.5%	11.8%	6.3%	0.9%	3.4%

Key cash flow figures

EUR mn	2017	2016	2015	2014	2013
Gross cash flow	418.7	385.9	284.5	230.8	94.6
Cash flow from operating activities	271.1	473.4	215.6	218.8	82.3
Free cash flow	32.6	366.3	145.0	114.8	(163.9)
CAPEX	238.8	107.2	70.9	104.3	248.7
Liquid assets as at 31/12	315.8	570.4	355.3	280.3	296.0
Unused credit facilities as at 31/12	213.8	217.7	190.9	198.5	296.2

Key balance sheet figures

EUR mn as at 31/12	2017	2016	2015 [1]	2014 [1]	2013
Total assets	2,497.3	2,625.3	2,410.6	2,359.2	2,439.9
Adjusted equity	1,527.7	1,390.5	1,218.6	1,054.9	1,109.6
Adjusted equity ratio	61.2%	53.0%	50.6%	44.7%	45.5%
Net financial debt	66.8	7.2	327.9	449.5	504.7
Net financial debt / EBITDA	0.1	0.0	1.1	1.9	2.2
Net debt	172.2	115.8	424.5	552.5	582.0
Net gearing	4.4%	0.5%	26.9%	42.6%	45.5%
Trading working capital	414.4	379.6	447.4	395.7	393.7
Trading working capital to annualized group revenue	19.4%	17.1%	21.6%	19.5%	21.3%

Key stock market figures

EUR	2017	2016	2015	2014	2013
Market capitalization in mn as at 31/12	2,810.3	3,053.3	1,846.6	1,400.2	1,105.4
Share price as at 31/12	105.85	115.00	69.55	52.74	41.64
Dividend per share	5.00 [2]	4.20	2.00	1.00	1.75

Employees	2017	2016	2015	2014	2013
Number (headcount) as at 31/12	6,488	6,218	6,127	6,356	6,675

1) Error correction in accordance with IAS 8 (see note 2).
2) On the basis of proposed distribution of profits.

The above financial indicators are derived primarily from the IFRS consolidated financial statements of the Lenzing Group. Additional details are provided in the section "Notes on financial performance indicators of the Lenzing Group", in the glossary of the the Annual Report and in the consolidated financial statements of the Lenzing Group. Rounding differences can occur in the presentation of rounded amounts and percentage rates.

Financial calendar 2018

Publication Financial Calendar (acc. to Prime market regulation)	2018
Final results 2017	Wed, 14 March
Record Date “Annual General Meeting”	Mo, 2 April
74th Annual General Meeting	Thu, 12 April
Quotation ex dividend	Mo, 16 April
Record Date “Dividends”	Tue, 17 April
Dividend distribution	Wed, 18 April
Results 1st quarter 2018	Tue, 8 May
Half-year results 2018	Wed, 8 August
Results 3rd quarter 2018	Wed, 7 November

Notes:
This English translation of the financial statements was prepared for the company’s convenience only. It is a non-binding translation of the German financial statements. In the event of discrepancies between this English translation and the German original the latter shall prevail. This annual report also includes forward-looking statements based on current assumptions and estimates that are made to the best of its knowledge by Lenzing Group. Such forwardlooking statements can be identified by the use of terms such as “should”, “could”, “will”, “estimate”, “expect”, “assume”, “predict”, “intend”, “believe” or similar items. The projections that are related to the future development of the Lenzing Group represent estimates that were made on the basis of the information available as at the date on which this annual report went to press. Actual results may differ from the forecast if the assumptions underlying the forecast fail to materialize or if risks arise at a level that was not anticipated. Calculation differences may arise when rounded amounts and percentages are summed. The annual report was prepared with great accuracy in order to ensure that the information provided herein is correct and complete. Rounding, type-setting and printing errors can nevertheless not be completely ruled out.

Glossary

Botanic fibers A fiber industrially produced from raw materials of plant origin (e.g. wood).

Biobased Products are considered biobased when they are made completely or in part from renewable raw materials. These products can be biodegradable or non-biodegradable.

Biobased materials Materials from the biorefinery, which are made of renewable raw materials; biorefinery products.

Bioenergy Bioenergy is energy that is generated from biomass. This term covers various types of energy like heat or electricity as well as biomass in which the energy is stored chemically. Renewable raw materials represent the main energy sources.

Biorefinery A biorefinery is a refinery which processes biomass (e.g. wood) into various products. The underlying concept is based on the integrated, high-quality utilization of the biomass. The two biorefinery locations in Lenzing (Austria) and Paskov (Czech Republic) utilize 100 percent of the wood – in the form of pulp, biobased materials and bioenergy.

Cellulose Cellulose is a structural component in the cell walls of plants and the raw material used for pulp production. The cellulose content of wood is about 40 percent.

Co-product By-products recovered during fiber production.

Dissolving wood pulp A special kind of pulp with distinct characteristics which is used to manufacture viscose, modal and lyocell fibers and other cellulose-based products. This grade of pulp is characterized by a higher alpha cellulose content and high purity.

FSC® The Forest Stewardship Council® (FSC®) is an international non-profit organization for wood certification (https://ic.fsc.org/).

Integration All steps in fiber production – from the raw material wood to pulp production and fiber production – are located at the same site.

ISO 14001 An international standard for the certification of environmental management systems.

ISO 9001 An international standard for the certification of quality management systems.

Lyocell fiber A new type of cellulose fiber developed by Lenzing, which is produced in a very environmentally friendly process. Lenzing markets these fibers under the TENCEL™ and VEOCEL™ brands. The production process is particularly environmentally friendly because of its closed loop and use of only one solvent.

Modal fiber Modal is a viscose fiber which is refined under modified viscose production and spinning conditions. It is characterized by special softness and is the preferred fiber for high-quality underwear and similar products. The fibers have improved usage properties such as strength, dimensional stability, etc. Lenzing markets these fibers under the TENCEL™ Modal brand.

Nonwovens The nonwoven materials made from VEOCEL™ fibers are used for sanitary, medical and cosmetics applications.

OHSAS 18001 Occupational Health and Safety Assessment Series (OHSAS) is a certification process for work safety management systems (http://www.ohsas-18001-occupational-health-and-safety.com).

PEFC™ The Programme for the Endorsement of Forest Certification Schemes™ (PEFC™) is an international non-profit organization for wood certification.

REFIBRA™ Lenzing introduced REFIBRA™ at the beginning of 2017. As raw materials, this new technology uses pulp from fabric scraps resulting from the production of cotton clothing and pulp from wood. REFIBRA ™ is the first cellulose fiber to use wood as well as recycled materials as a raw material. Fibers made with this technology are produced in the very environmentally friendly lyocell production process.

sCore TEN The name of the Lenzing Group's new corporate strategy stands for a steady focus on performance (scoring) and the strengthening of the core business (core) as well as for long-term growth with specialty fibers like TENCEL™ and VEOCEL™.

Specialty fibers are fibers which show specific characteristics and are produced in a specific process, i.e. in the lyocell process. Corresponding fiber types are i.e. LENZING™ Lyocell, LENZING™ Modal und LENZING™ Specialty Viscose

Viscose fibers A cellulose fiber produced from raw materials of plant origin (e.g. wood) using the viscose process.

Financial glossary

Adjusted equity Equity including non-current and current government grants less the proportional share of deferred taxes on these government grants.

Adjusted equity ratio Ratio of adjusted equity to total assets in percent.

CAPEX Capital expenditures; i.e. acquisition of intangible assets, property, plant and equipment as per statement of cash flows.

Capital employed Total assets minus the following: non-interest-bearing debt, cash and cash equivalents, current securities, investments accounted for using the equity method and financial assets.

Earnings per share The share of net profit/loss for the year attributable to the shareholders of Lenzing AG divided by the weighted average number of issued shares, calculated according to IFRS (IAS 33 earnings per share).

EBIT (earnings before interest and tax) Earnings before interest and tax, or operating result; the precise derivation can be found in the consolidated income statement.

EBIT margin EBIT as a percent of revenue; represents the return on sales (ROS).

EBITDA (earnings before interest, tax, depreciation and amortization) Operating result before interest, tax, depreciation on property, plant and equipment and amortization of intangible assets and before income from the release of investment grants. The precise derivation can be found in the consolidated income statement.

EBITDA margin EBITDA as a percent of revenue.

EBT (earnings before tax) Profit/loss for the year before income tax expense. The precise derivation can be found in the consolidated income statement.

Equity The equity item aggregates the equity instruments as defined by IFRS. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. This represents the funds provided to the entity by its owners.

Free cash flow Cash flow from operating activities less cash flow from investing activities and net cash inflow from the sale and disposal of subsidiaries and other business areas plus acquisition of financial assets and investments accounted for using the equity method less proceeds from the sale/repayment of financial assets. Free cash flow corresponds to the readily available cash flow.

Gross cash flow Gross cash flow equals cash flow from operating activities before change in working capital; the precise derivation can be found in the consolidated statement of cash flows.

IAS Abbreviation for International Accounting Standard(s), which are internationally recognized accounting rules.

IFRS Abbreviation for International Financial Reporting Standard(s), which are internationally recognized accounting rules.

Liquid assets Cash and cash equivalents plus liquid securities and liquid bills of exchange.

Liquid funds Cash and cash equivalents plus current securities.

Market capitalization Weighted average number of shares multiplied by the share price as at the reporting date.

Net debt Interest-bearing financial liabilities (= current and non-current financial liabilities) less liquid assets plus provisions for pensions and severance payments.

Net financial debt Interest-bearing financial liabilities (= non-current and current financial liabilities) less liquid assets.

Net financial debt / EBITDA Net financial debt as a percent of EBITDA.

Net gearing Net financial debt as a percent of adjusted equity.

Net profit/loss for the year Profit/loss after tax; net profit/loss. The precise definition can be found in the consolidated income statement.

Non-interest-bearing debt Trade payables plus the following: puttable non-controlling interests, other liabilities, current tax liabilities, deferred tax liabilities and the proportional share of deferred taxes on government grants as well as provisions (excluding post-employment benefits).

NOPAT Net operating profit after tax; operating result (EBIT) less the proportional share of current income tax expense.

Post-employment benefits Provisions for severance payments and pensions.

ROCE (return on capital employed) NOPAT as a percent of average capital employed (average from January 1 and December 31).

ROE (Return on equity) EBT (earnings before tax) as a percent of average equity (average from January 1 and December 31).

ROI (Return on investment) EBIT (earnings before tax) as a percent of average total assets (average from January 1 and December 31).

Total assets Total of non-current and current assets or the total of equity and non-current and current liabilities. The precise derivation can be found in the consolidated statement of financial position.

Trading working capital Inventories plus trade receivables less trade payables.

Trading working capital to annualized group revenue Trading working capital as a percent of the latest reported quarterly group revenue x 4.

Working capital Net current assets. Inventories plus trade receivables and other non-current and current assets less current provisions, trade payables and other non-current and current liabilities.

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Lenzing
Innovative by nature