Interim Report 01-09/2018
Lenzing Group

Q3 2018

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Selected Indicators of the Lenzing Group

Key earnings and profitability figures

EUR mn	01-09/2018	01-09/2017	Change
Revenue	1,636.2	1,726.6	(5.2)%
EBITDA (earnings before interest, tax, depreciation and amortization)	290.6	397.1	(26.8)%
EBITDA margin	17.8%	23.0%	
EBIT (earnings before interest and tax)	190.3	298.4	(36.2)%
EBIT margin	11.6%	17.3%	
EBT (earnings before tax)	177.9	283.3	(37.2)%
Net profit for the year (/the period)	133.8	219.3	(39.0)%
Earnings per share in EUR	5.06	8.12	(37.8)%

Key cash flow figures

EUR mn	01-09/2018	01-09/2017	Change
Gross cash flow	223.4	325.3	(31.3)%
Cash flow from operating activities	247.3	262.7	(5.9)%
Free cash flow	74.3	134.4	(44.7)%
CAPEX	174.1	128.5	35.5%
EUR mn	**30/09/2018**	**31/12/2017**	**Change**
Liquid assets	275.7	315.8	(12.7)%
Unused credit facilities	465.9	213.8	118.0%

Key balance sheet figures

EUR mn	30/09/2018	31/12/2017	Change
Total assets	2,584.2	2,497.3	3.5%
Adjusted equity	1,537.7	1,527.7	0.7%
Adjusted equity ratio	59.5%	61.2%	
Net financial debt	121.1	66.8	81.4%
Net debt	225.8	172.2	31.1%
Net gearing	7.9%	4.4%	
Trading working capital	421.8	414.4	1.8%
Trading working capital to annualized group revenue	18.8%	19.4%	

Key stock market figures

EUR	30/09/2018	31/12/2017	Change
Market capitalization in mn	2,390.8	2,810.3	(14.9)%
Share price	90.05	105.85	(14.9)%

Employees	30/09/2018	31/12/2017	Change
Number (headcount)	6,739	6,488	3.9%

The above key financial figures are derived primarily from the condensed consolidated interim financial statements and the consolidated financial statements of the previous year of the Lenzing Group. Additional details are provided in “Notes on the Financial Performance Indicators of the Lenzing Group“, available at the following link https://www.lenzing.com/Notes-Financial-Performance-Indicators-Lenzing-Group-2018-Q3, and in the condensed consolidated interim financial statements, resp. the consolidated financial statements of the previous year of the Lenzing Group. Rounding differences can occur in the presentation of rounded amounts and percentag rates.

Management Report 01-09/2018

The global economic environment remains stable. In the past months, however, destabilizing factors have continued to increase. In October, the International Monetary Fund (IMF) therefore changed its growth forecast for this year and next year revising its World Economic Outlook of July from 3.9 percent to 3.7 percent. In particular, the IMF views the growing protectionism in world trade, economic tensions between China and the USA and various geopolitical tensions negatively. The negotiations on the United Kingdom's withdrawal from the European Union continue to be a source of uncertainty.

Prices in the global fiber markets saw a highly varied development in the third quarter:

In the cotton market, the scarce supply at the end of the 2017/2018 season and growing demand for higher qualities led to significant price increases. According to the Cotlook-A-Index, the price for cotton marked a high at USD 99.5 cents per pound in July. As supply increased at the beginning of the new harvesting season, the price initially declined to USD 93.8 cents per pound and to USD 87.2 cents per pound in September. Global demand for cotton is forecast to be strong with declining production volumes at the same time, indicating that prices will remain high and stable in the coming seasons.

Polyester prices rose in the third quarter from 1.14 USD/kg to 1.33 USD/kg as at September 30, 2018 due to significant price increases in key raw materials for polyester production. After peaking at 1.45 USD/kg at the beginning of September, polyester prices fell again towards the end of the quarter as a result of declining raw material prices.

Wood-based cellulosic fibers recorded very positive demand throughout the value chain in the first three quarters. However, the announcements of capacity expansions by some manufacturers had a negative impact at the beginning of the third quarter. The market prices for Chinese standard viscose decreased from 14,850 RMB/to to 13,900 RMB/to during the month of July. As delays occurred in the commissioning of new capacities and demand picked up, prices rose again in August. Subsequently, the prices for standard viscose stabilized and amounted to 15,180 RMB/to as at September 30. The expected good demand and planned capacity expansions result in a mixed outlook for the further development until the end of the year.

The Lenzing Group recorded a decline in revenue and earnings in the third quarter compared with the same quarter of the previous year. Revenue decreased by 2.9 percent to EUR 560.9 mn. EBITDA (earnings before interest, tax, depreciation and amortization) fell by 24.2 percent to EUR 95.8 mn and EBIT (earnings before interest and tax) was down 34.7 percent to EUR 61.6 mn. EBT (earnings before tax) and net profit recorded a drop by 35.7 percent to EUR 57 mn and by 38.4 percent to EUR 42.5 mn respectively.

In the first three quarters, revenue decreased by 5.2 percent to EUR 1,636.2 mn over the comparative period of the previous year. Apart from the high starting base, this was primarily attributable to the expected challenging market environment for standard viscose, more unfavorable exchange rates and lower production volume. The decline was mitigated due to the focus on LENZING™ specialty fibers and further optimization of the product mix regarding customers and sales regions.

EBITDA (earnings before interest, tax, depreciation and amortization) recorded a decline by 26.8 percent to EUR 290.6 mn, mainly due to price increases for key raw materials, especially caustic soda, and higher energy and dissolving wood pulp prices, leading to a lower EBITDA margin of 17.8 percent compared with 23 percent in the first three quarters of the previous year. EBIT (earnings before interest and tax) fell by 36.2 percent to EUR 190.3 mn. The EBIT margin dropped to 11.6 percent (from 17.3 percent in the comparative period). EBT (earnings before tax) was down 37.2 percent to EUR 177.9 mn and net profit decreased by 39 percent to EUR 133.8 mn. Earnings per share fell by 37.8 percent to EUR 5.06.

Gross cash flow dropped by 31.3 percent to EUR 223.4 mn, essentially due to the development of earnings. Cash flow from operating activities declined by 5.9 percent to EUR 247.3 mn during the same period.

CAPEX (investments in intangible assets and property, plant and equipment) rose by 35.5 percent to EUR 174.1 mn. This is primarily attributable to capacity expansions in Heiligenkreuz (Austria) and the expansion of the existing dissolving wood pulp plant in Lenzing as well as the investments made so far in Mobile (USA). Liquid assets declined by 12.7 percent to EUR 275.7 mn since the beginning of the year. Compared with the figure of EUR 66.8 mn as at December 31, 2017 net financial debt increased to EUR 121.1 mn as at September 30, 2018 as existing credit lines were used, and is thus still at a solid level.

Key strategic measures were implemented during the first three quarters of 2018 in line with the sCore TEN strategy. The start-up of new capacities for lyocell fibers in Heiligenkreuz, the production start of LENZING™ ECOVERO™ fibers at the Nanjing site and the investment in another pilot line for TENCEL™ Luxe filaments are important steps to accomplish the goal of increasing the share of specialty fibers in total revenue.

However, due to the decision to temporarily mothball the lyocell expansion project in Mobile in view of the buoyant US labor market and trade tensions between the major trading blocks, the implementation of the expansion plan for specialty staple fibers will be slowed down. The Lenzing Group will put all its effort to readjust the execution of its growth plan to meet strong market demand for its lyocell fibers. This includes an increased focus on the lyocell expansion project in Prachinburi (Thailand).

Regarding the capacity expansion for specialty products such as TENCEL™ Luxe filaments and LENZING™ ECOVERO™ viscose fibers, Lenzing is still on track. After the introduction of TENCEL™ Luxe branded lyocell filament yarns in the previous year, Lenzing continues to drive innovations in the area of the value chain. In September, the company also announced the successful development of the LENZING™ Web Technology, a new technology platform focusing on sustainable nonwoven products, which will lead to new market opportunities for the industry. Following several years of research and development work and investments totaling EUR 26 mn, the pilot plant at the headquarters in Lenzing has been successfully put into operation.

In addition, the Lenzing Group announced an agreement with Duratex, the largest producer of wood panels in the southern hemisphere, in June on the terms and conditions to form a joint venture to investigate building the largest single line dissolving wood pulp plant in Minas Gerais (Brazil). This decision supports backward integration and is also a significant step in implementing the sCore TEN strategy.

At the beginning of November the takeover by the Lenzing Group of the remaining 30 percent of its Chinese subsidiary Lenzing (Nanjing) Fibers Co. Ltd. (LNF) from its state-owned joint venture partner NCFC was completed. After closing of the transaction, the Lenzing Group will hold 100 percent of LNF. The acquisition will have a negative impact on net profit of approx. EUR 21 mn for the fiscal year 2018. The purchase of the shares supports Lenzing's strategic growth as a producer of specialty fibers from the renewable raw material wood in China and worldwide. It paves the way to setting up further production lines for specialty fibers. Lenzing wants to convert LNF into a specialty fibers hub over time.

Outlook

Demand development on the global fiber market remains positive. Lenzing expects wood-based cellulosic fibers to continue to grow at a higher rate than the overall fiber market. In a challenging market environment the Lenzing Group expects solid results for 2018, albeit lower than in the outstanding last two years.

For 2019, Lenzing expects standard viscose markets to remain under pressure because of an ongoing oversupply and very high raw material prices, especially for caustic soda and pulp. Lenzing's specialty fiber business is expected to continue the very positive development.

The above-mentioned development reassures the Lenzing Group in its chosen corporate strategy sCore TEN. Lenzing is very well positioned in this market environment and will continue its consistent focus on growth with specialty fibers.

Lenzing, November 02, 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 Income Statement (condensed)

for the period from January 1 to September 30, 2018

				EUR mn
	07-09/2018	**07-09/2017**	**01-09/2018**	**01-09/2017**
Revenue	560.9	577.5	1,636.2	1,726.6
Change in inventories of finished goods and work in progress	1.9	(2.5)	4.7	(3.5)
Own work capitalized	11.6	12.6	39.8	32.4
Other operating income	11.7	11.8	41.2	38.6
Cost of material and other purchased services	(331.3)	(318.2)	(957.4)	(936.6)
Personnel expenses	(96.4)	(89.3)	(282.4)	(263.1)
Other operating expenses	(62.7)	(65.6)	(191.6)	(197.3)
Earnings before interest, tax, depreciation and amortization (EBITDA)[1]	**95.8**	**126.4**	**290.6**	**397.1**
Amortization of intangible assets and depreciation of property, plant and equipment and income from the release of investment grants	(34.2)	(32.2)	(100.3)	(98.7)
Earnings before interest and tax (EBIT)[1]	**61.6**	**94.2**	**190.3**	**298.4**
Financial result	(3.7)	(3.2)	(11.7)	(9.3)
Allocation of profit or loss to puttable non-controlling interests	(0.8)	(2.4)	(0.7)	(5.8)
Earnings before tax (EBT)[1]	**57.0**	**88.7**	**177.9**	**283.3**
Income tax expense	(14.5)	(19.7)	(44.1)	(64.0)
Net profit for the period	**42.5**	**69.0**	**133.8**	**219.3**
Net profit for the period attributable to shareholders of Lenzing AG	42.9	68.4	134.3	215.7
Net profit for the period attributable to non-controlling interests	(0.4)	0.6	(0.4)	3.6
Earnings per share	**EUR**	**EUR**	**EUR**	**EUR**
Diluted = basic	1.62	2.57	5.06	8.12

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
(condensed)

for the period from January 1 to September 30, 2018

EUR mn

	07-09/2018	07-09/2017	01-09/2018	01-09/2017
Net profit for the period as per consolidated income statement	**42.5**	**69.0**	**133.8**	**219.3**
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit liability	(0.6)	0.0	(0.6)	0.0
Financial assets measured at fair value through other comprehensive income	0.1	0.0	1.0	0.0
Income tax relating to these components of other comprehensive income	0.2	0.0	0.0	0.0
	(0.2)	**0.0**	**0.4**	**0.0**
Items that may be reclassified to profit or loss				
Foreign operations – foreign currency translation differences	3.2	(11.0)	12.4	(40.5)
Available-for-sale financial assets	0.0	0.1	0.0	2.6
Financial assets measured at fair value through other comprehensive income	(0.1)	0.0	(0.1)	0.0
Cash flow hedges	3.3	(0.7)	(9.7)	17.2
Income tax relating to these components of other comprehensive income	(0.6)	0.1	2.0	(4.4)
Investments accounted for using the equity method - share of other comprehensive income (net of tax)	(0.1)	(0.1)	(0.1)	(0.2)
	5.8	**(11.5)**	**4.5**	**(25.3)**
Other comprehensive income – net of tax	**5.5**	**(11.5)**	**4.9**	**(25.3)**
Total comprehensive income	**48.1**	**57.6**	**138.8**	**194.1**
Attributable to shareholders of Lenzing AG	48.2	58.0	138.1	194.2
Attributable to non-controlling interests	(0.1)	(0.4)	0.6	(0.1)

Consolidated Statement of Financial Position
(condensed)

as at September 30, 2018

EUR mn

Assets	30/09/2018	31/12/2017
Intangible assets and property, plant and equipment	1,463.0	1,387.6
Investments accounted for using the equity method and financial assets	53.7	44.9
Deferred tax assets	4.6	4.0
Other non-current assets	17.9	13.8
Non-current assets	**1,539.2**	**1,450.2**
Inventories	370.7	340.1
Trade receivables	311.0	292.8
Other current assets	99.6	107.8
Cash and cash equivalents	263.7	306.5
Current assets	**1,045.0**	**1,047.1**
Total assets	**2,584.2**	**2,497.3**

Equity and liabilities	30/09/2018	31/12/2017
Equity attributable to shareholders of Lenzing AG	1,485.6	1,476.3
Non-controlling interests	32.1	31.6
Equity	**1,517.7**	**1,507.9**
Financial liabilities	296.6	255.3
Deferred tax liabilities	54.5	52.7
Provisions	128.4	131.7
Other non-current liabilities	45.0	40.1
Non-current liabilities	**524.5**	**479.8**
Financial liabilities	100.3	127.3
Trade payables	259.9	218.4
Provisions	111.2	95.7
Other current liabilities	70.6	68.1
Current liabilities	**542.0**	**509.5**
Total equity and liabilities	**2,584.2**	**2,497.3**

Consolidated Statement of Changes in Equity
(condensed)

for the period from January 1 to September 30, 2018

EUR mn

	Share capital	Capital reserves	Other reserves	Retained earnings	Equity attributable to shareholders of Lenzing AG	Non-controlling interests	Equity
As at 01/01/2017	**27.6**	**133.9**	**23.5**	**1,151.1**	**1,336.1**	**32.4**	**1,368.5**
Total comprehensive income	0.0	0.0	(21.6)	215.7	194.2	(0.1)	194.1
Dividends	0.0	0.0	0.0	(111.5)	(111.5)	(0.1)	(111.6)
As at 30/09/2017	**27.6**	**133.9**	**2.0**	**1,255.3**	**1,418.8**	**32.2**	**1,451.0**
As at 01/01/2018 (previously)	**27.6**	**133.9**	**(1.6)**	**1,316.4**	**1,476.3**	**31.6**	**1,507.9**
First-time adoption of IFRS 9 (Financial Instruments)[1]	0.0	0.0	4.0	0.0	3.9	0.0	3.9
As at 01/01/2018 (adjusted)	**27.6**	**133.9**	**2.4**	**1,316.4**	**1,480.3**	**31.6**	**1,511.8**
Total comprehensive income	0.0	0.0	3.8	134.3	138.1	0.6	138.8
Acquisition/disposal of non-controlling interests and other changes in the scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	(132.8)	(132.8)	(0.2)	(132.9)
As at 30/09/2018	**27.6**	**133.9**	**6.1**	**1,318.1**	**1,485.6**	**32.1**	**1,517.7**

1) The first-time adoption of IFRS 9 as of January 1, 2018 resulted in an increase in equity with no effect on profit or loss arising primarily from the reclassification and measurement of equity instruments that were previously measured at cost and are now measured at fair value through other comprehensive income. Additional details are provided in note 2 to the consolidated financial statements 2017.

Consolidated Statement of Cash Flows (condensed)

for the period from January 1 to September 30, 2018

EUR mn

		01-09/2018	01-09/2017
Net profit for the period		**133.8**	**219.3**
+	Amortization of intangible assets and depreciation of property, plant and equipment	102.3	100.7
−/+	Other non-cash income / expenses	(12.7)	5.3
Gross cash flow		**223.4**	**325.3**
+/−	Change in inventories	(29.6)	(12.0)
+/−	Change in receivables	(10.5)	(53.9)
+/−	Change in liabilities	64.0	3.3
Change in working capital		**23.9**	**(62.6)**
Cash flow from operating activities		**247.3**	**262.7**
−	Acquisition of intangible assets, property, plant and equipment (CAPEX)	(174.1)	(128.5)
−	Acquisition of financial assets and investments accounted for using the equity method	(1.5)	(1.0)
+	Proceeds from the sale of intangible assets, property, plant and equipment	1.2	0.2
+	Proceeds from the sale/repayment of financial assets and the sale of investments accounted for using the equity method	2.2	1.2
+	Net inflow from the sale and disposal of subsidiaries and other business areas	0.1	3.1
Cash flow from investing activities		**(172.1)**	**(125.0)**
−	Distribution to shareholders	(132.9)	(111.6)
+	Investment grants	0.2	1.9
+	Increase in other financial liabilities	73.6	4.3
−	Repayment of bonds and private placements	0.0	(120.0)
−	Repayment of other financial liabilities	(59.0)	(74.9)
Cash flow from financing activities		**(118.1)**	**(300.4)**
Total change in liquid funds		**(43.0)**	**(162.8)**
Liquid funds at the beginning of the year		306.5	559.6
Currency translation adjustment relating to liquid funds		0.2	(8.8)
Liquid funds at the end of the period		**263.7**	**388.0**
Additional information on payments in the cash flow from operating activities:			
Interest payments received		1.3	1.7
Interest payments made		4.1	9.3
Income taxes paid		59.2	64.2

The condensed consolidated interim financial statements as at September 30, 2018 were prepared in accordance with the regulations “Prime market – section interim reports” of the Vienna stock exchange. They are based on the consolidated financial statements as at December 31, 2017 and should therefore always be read in conjunction with these statements.

The reporting currency is euro (EUR). The figures shown in these condensed consolidated interim financial statements and in the notes, unless stated otherwise, have been rounded up to the next million (“mn”) to one decimal place. Arithmetic differences due to rounding effects can occur when adding up rounded amounts and percentages using automatic tools.

These condensed consolidated interim financial statements of the Lenzing Group have undergone neither a full audit nor a review by an auditor.

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Note:

This English translation of the condensed interim report was prepared for the company´s convenience only. It is a non-binding translation of the German condensed interim report. In the event of discrepancies between this English translation and the German original the latter shall prevail.

This condensed interim group report also contains forward-looking statements based on current assessment and assumptions made by Lenzing Group to the best of its knowledge. Statements using the words "should", "may", "will", "expected", "intended", "assume", "suppose", "estimate", "plan", "anticipate", "is of the opinion", "to my knowledge", "in my estimation" or similar formulations indicate such forward-looking statements. The forecasts relating to the future development of the Lenzing Group are estimates based on the information available at the time of this condensed interim group report going to print.

If the assumptions on which the forecasts are based do not occur or risks arise at a level that was not anticipated, actual results may deviate from forecasts.

Rounding differences can occur when adding up rounded amounts and percentages. The condensed interim group report was prepared with the utmost care to ensure the accuracy and completeness of information in all sections. Nonetheless, errors due to rounding, typesetting and printing cannot be completely ruled out.