# FOCUS ON VALUE


ANNUAL REPORT 2014
LENZING GROUP

www.lenzing.com

LENZING
LEADING FIBER INNOVATION

# SELECTED KEY FIGURES
OF THE LENZING GROUP

## Key earnings figures

| EUR mn | 2014 | 2013 | Change |
|---|---|---|---|
| Revenue | 1,864.2 | 1,908.9 | (2.3%) |
| EBITDA (earnings before interest, taxes, depreciation and amortization) | 240.3 | 225.4 | 6.6% |
| EBITDA margin | 12.9% | 11.8% | |
| EBIT (earnings before interest and taxes) | 21.9 | 86.4 | (74.6%) |
| EBIT margin | 1.2% | 4.5% | |
| EBT (earnings before taxes) | 7.3 | 68.1 | (89.3%) |
| Profit/loss for the year | (14.2) | 50.0 | N/A |
| Earnings per share | (0.51) | 1.89 | N/A |

## Key cash flow figures

| EUR mn | 2014 | 2013 | Change |
|---|---|---|---|
| Gross cash flow | 230.8 | 94.6 | 144.1% |
| Cash flow from operating activities | 218.8 | 82.3 | 165.9% |
| Free cash flow | 114.8 | (163.9) | N/A |
| CAPEX | 104.3 | 248.7[2] | (58.1%) |
| Liquid assets as at 31/12 | 280.3 | 296.0 | (5.3%) |
| Open credit facilities as at 31/12 | 198.5 | 296.2 | (33.0%) |

## Key balance sheet figures

| EUR mn as at 31/12 | 2014 | 2013 | Change |
|---|---|---|---|
| Adjusted equity ratio in % | 44.9% | 45.5% | |
| Net financial debt | 449.5 | 504.7 | (10.9%) |
| Net financial debt/EBITDA | 1.9 | 2.2 | (16.4%) |
| Net debt | 552.5 | 582.0 | (5.1%) |
| Net gearing | 42.2% | 45.5% | |
| ROCE (return on capital employed) | (0.1%) | 3.7% | |

## Key stock market figures

| EUR | 2014 | 2013 | Change |
|---|---|---|---|
| Market capitalization in millions as at 31/12 | 1,400.2 | 1,105.4 | 26.7% |
| Share price as at 31/12 | 52.74 | 41.64 | 26.7% |
| Dividend per share | 1.00[1] | 1.75 | (42.9%) |

## Employees

| Headcount | 2014 | 2013 | Change |
|---|---|---|---|
| Employees as at 31/12 | 6,356 | 6,675 | (4.8%) |

1) On the basis of proposed distribution of profits.

2) Including acquisition of intangible assets and property, plant and equipment of former BU Plastics (2013: EUR 2,671 thousand).

The above key financial figures are largely derived from the Lenzing Group's consolidated financial statements according to IFRS. Further details on their calculation can be found in the Glossary of the Annual Report or the consolidated financial statements of the Lenzing Group.
Rounding differences can occur when presenting rounded amounts and percentages.

To improve the informative value and clarity, the presentation of key figures was revised for this Annual Report.


## World's largest TENCEL®[1] plant in Lenzing successfully put into operation

During the 2014 reporting year, Lenzing successfully initiated production at its first TENCEL® jumbo production facility featuring a nominal capacity of 67,000 tons. For the first time, such large fiber volumes can be produced on a single production line. Conventional TENCEL® production lines are only one-quarter as large on average.

Thanks to the new design of the jumbo production line, investment costs could be maintained at a very competitive level of approximately EUR 150 mn (or about EUR 2,200 per ton of capacity).

## Technological milestone for TENCEL®, the fiber of the future

The latest generation of TENCEL® technology incorporates the experience gained from the three existing TENCEL® production plants of the Lenzing Group located in Austria, USA and Great Britain.

With a construction time of 24 months, Lenzing completely adhered to both the budgeted investment costs as well as all timetables. The TENCEL® fiber production secures 140 jobs at the Lenzing site.

## Basis for future investments on all markets

The successful start of the jumbo fiber production line serves as the basis for the further competitive scaling of TENCEL® fibers as a universally deployable textile and nonwoven fiber. The new, broader product portfolio on the basis of the TENCEL® technology successfully complements Lenzing's specialty strategy.

## Expansion of global market leadership for lyocell

The annual nominal TENCEL® production capacity of the Lenzing Group will rise from 155,000 tons to about 220,000 tons thanks to the new plant. In this way, Lenzing will further expand upon its worldwide leadership for lyocell and offer its global customers new expansion opportunities in both the textile and nonwoven segments as well as new and innovative applications.

## TENCEL® – the fiber of the future

TENCEL® is a registered trademark of Lenzing Aktiengesellschaft. The lyocell fiber TENCEL® represents the latest generation of man-made cellulose fibers, and is manufactured in a particularly environmentally-compatible production process awarded the "European Award for the Environment" by the European Union. Lenzing is the world's only industrial-scale supplier of lyocell fibers.

Typical applications of the high-tech fiber TENCEL® include sportswear, soft denim (jeans), home textiles as well as baby wipes and cosmetic wipes. However, TENCEL® is also being increasingly deployed for technical applications. For example, as a powder added to construction materials, TENCEL® ensures a pleasant indoor climate.

[1] TENCEL® is a registered trademark of Lenzing Aktiengesellschaft.

# CONTENTS

# EDITORIAL BY THE CHAIRMAN OF THE MANAGEMENT BOARD

2014 turned out to be a year in which the Lenzing Group faced major challenges, similar to the two previous financial years. We did manage to successfully counteract the adverse market situation. Our entire team showed tremendous energy and commitment, enabling us to generate very respectable operating results under difficult conditions. However, looking at the year as a whole, there is no way we can be completely satisfied.

As expected, the price situation in our core business of producing man-made cellulose fibers, which was already extremely strained beforehand, deteriorated even further in 2014. Our sales markets followed the general global downward price trend for industrial raw materials. Actually, the causes are quite similar. Global economic growth is simply too modest to offset high industrial surplus capacity. The consequences are continuing good growth and an interesting increase in sales volumes accompanied by strongly volatile and falling prices.

In addition, due to its sheer size and globalized nature, the market for standard viscose fibers is increasingly displaying the typical characteristics of a commodity market. What I mean is a clearly delineated supply and demand profile and strong cash-driven pricing, especially in what has become a buyer's market. In this market segment, the opportunities for a premium supplier such as Lenzing to stand out from the competition are shrinking. The bottom line is that it is absolutely essential to continually adapt our operations to reflect changing market conditions by optimizing production and sales structures. This is accompanied by the path Lenzing has taken up until now, which is increasingly oriented to specialty fibers, whereas strict cost optimization for standard viscose fibers will continue to be resolutely implemented in the spirit of commodity economics.

This is why TENCEL® is the cellulose fiber of the future. We are only conducting research and further developing standard viscose fibers in a selective manner. At the most, all manufacturers in this segment are working on cash cost optimization when it comes to production technologies. This will lead to even more capacity expansion in the viscose fiber industry in the future, but on the basis of strict investment criteria, stringent cost management and a pricing and quality policy which is typical for a commodity product.

The sales market for viscose fibers was also impacted by special effects in 2014. The most significant development was the slump in global cotton prices, which fell by about a quarter as a result of the long-expected change in China's subsidy policy, and the ongoing surplus supply of cotton on the world market. This situation was aggravated in the fourth quarter by the drastic fall of oil prices, massively reducing the cost of the most important raw material required for producing polyester fibers. This triggered even more unease on the fiber market, which continued to show high volatility at the beginning of 2015. The lack of predictability with respect to how prices for fibers and yarn would develop and the low visibility led to a corresponding uncertainty along the textile value chain. In turn, this resulted in a further decline in global market prices for viscose fibers, which Lenzing could only partly offset thanks to the strong value of the US dollar.

The way prices developed was not a surprise to us. That is why we already implemented timely countermeasures in the fourth quarter of 2013. In the light of current market trends, we significantly cut back on our previous pace of growth, in order to productively minimize risks. We realized that we could not sustainably generate the targeted yield on expansion projects featuring an EBITDA of 14-18 percent in a structurally difficult viscose fiber market.

All capacity expansion projects were stopped with the exception of construction of the TENCEL® fiber production plant in Lenzing. The business model was updated to further minimize risk, optimize cash costs and reduce net financial debt. These measures were accompanied by a change implemented at the beginning of 2014 in the previous division-based organizational structure to create a faster-reacting and leaner functional organization.

Simultaneously, Lenzing's excelLENZ initiative was launched to generate massive cost savings in all business areas, all cost items and on all organizational levels. During the course of 2014, these measures gradually began to have a major impact on earnings. Thanks to resolute analyses and additional optimization measures, cost reductions ended up being twice as high as originally expected. In this way, we at least managed to partly counteract the erosion of fiber selling prices. Lenzing even succeeded in bucking the prevailing trend and stabilizing fiber selling prices at a low level on the basis of intensified marketing measures and an improved product mix.

By combining a variety of internal measures, value-enhancing marketing efforts and the improved product mix with a greater focus on higher priced specialty fibers, we successfully thwarted the impending drift into the red and a deterioration of our balance sheet.

Let me take this opportunity to address the criticisms of all these measures which we have been confronted with, both within and outside of the company. For us, it was not at all easy to implement such extensive and far-reaching cost savings, in particular with downsizing the workforce. The Management Board is aware that the news of job cuts is always difficult for the affected employees and their families, regardless of the employee's personal performance. Every person involved considers this to be unjust, and even a good system to cushion the effects and a variety of accompanying measures can only partly compensate for the loss of a job.

Naturally, we would definitely have preferred to retain all those who had to leave the company in 2014 or will first do so in 2015. However, it should be mentioned that the job cuts were implemented without a single lawsuit, and without a single employee being laid off in Austria. This shows that we were able to carry out these unpleasant but necessary measures with sound judgment and a sense of proportion. What's more, the required steps taken at the Lenzing site did not have any long-lasting effects on the local job market in Upper Austria.

A company subject to global competition cannot afford to jeopardize its competitiveness. There is no doubt that this would lead to destroying the assets and value of the company and ultimately to a loss of autonomy. For these reasons, we initiated a far-reaching restructuring and reorganization of the technical units (maintenance, workshops, Lenzing Technik) at the Lenzing site and other major production plants. Considering the expected decline in investment activity in the pulp and fiber industries, these measures are indispensable, even if they do involve some additional tough cutbacks.

Despite cost reduction measures, Lenzing went on to achieve an all-time high fiber sales volume of about 960,000 tons. This is actually an enormous achievement, both on the part of our production teams and sales teams. It occurred in the face of severe headwinds, and certainly underlines the market strength and commitment of Lenzing in its role as a global market leader. I would like to express my heartfelt thanks to all employees for this.

One major highlight of 2014 was certainly the completion of the TENCEL® fiber production plant and the unparalleled performance of our TENCEL® team. Our new TENCEL® facility in Lenzing, the largest in the world, was successfully ramped up with what must be record-breaking precision and adherence to schedules. The coming on stream of the first "jumbo production line" impressively demonstrates the technological leadership of Lenzing when it comes to TENCEL®, the fiber of the future. Towards the end of 2014, we succeeded in almost fully reaching the nominal capacity of about 67,000 tons p.a. by deploying an improved, more efficient and high-performing production technology matured on the basis of the experience we have gained in recent years. The quality level of the fibers also fulfills our expectations. My sincere thanks go to everyone who contributed to this success, especially the core shareholders, whose foresight made this development possible.

Finally, I would like to thank all our customers for their confidence in our products and services and our shareholders and partners for the trust they have placed in us. As we continue on in 2015, another difficult year seems to be on the horizon. I can assure you that the Lenzing team will move full speed ahead with all the energy and strength at their disposal to work for the benefit of our customers and the company,

Yours,

Peter Untersperger

# THE LENZING GROUP

**Lenzing quality and Lenzing innovative power set standards for man-made cellulose fibers worldwide.**

The Lenzing Group is an international, publicly listed group of companies with headquarters in Austria, production sites in all major markets as well as a worldwide network of sales and marketing offices. Lenzing supplies the global textile and nonwovens industry with high-quality man-made cellulose fibers. The portfolio ranges from dissolving pulp, standard and specialty cellulose fibers to engineering services.

Lenzing quality and innovative strength set global standards for man-made cellulose fibers. With more than 75 years of experience in fiber production, the Lenzing Group is the only company worldwide combining the manufacturing of all three man-made cellulose fiber generations on a large industrial scale under one roof – from the classic viscose to modal and lyocell (TENCEL®) fibers.

The success of the Lenzing Group is based on a unique combination of consistent customer orientation together with its leadership in innovation, technology and quality. Lenzing is committed to the principle of sustainable management and very high environmental standards.


Lenzing fibers are man-made cellulose fibers: they are made from the natural raw material wood which contains about forty percent cellulose. The natural origin contributes to the fibers‘ excellent properties such as absorbency and moisture management, the industrial production process provides purity and clearly defined, uniform quality.

# THE PRODUCTION SITES OF THE LENZING GROUP[1]

### New York

New York (USA)

### Production site Grimsby

Great Britain

- Lyocell fibers (TENCEL®)
  **Capacity: 40,000 tons p.a.**

### Production site Mobile

Alabama (USA)

- Lyocell fibers (TENCEL®)
  **Capacity: 50,000 tons p.a.**

### Production site Kelheim

Germany

- Acrylic fibers (DOLAN®)

### Production site Lenzing

Austria

- World's largest integrated pulp and viscose fiber production plant
  **Capacity: 272,000 tons of fibers p.a.**
  **296,000 tons of dissolving pulp p.a.[2]**
- TENCEL® fiber plant
  **Capacity: 67,000 tons of fibers p.a.**
- Engineering and Contracting, Mechanical Construction and Industrial Services, Automation and Mechatronics

[1] All figures in metric tons as at December 31, 2014 [2] Air-dried

## Production site Paskov

Czech Republic

- Dissolving pulp
  **Capacity: 260,000 tons p.a.**[2]

## Production site Nanjing

China

- Viscose fibers
  **Capacity: 178,000 tons p.a.**
- Engineering and Technical Services

### Shanghai

China

- Asian fiber sales

### Coimbatore

India

### Hong Kong

China

### Jakarta

Indonesia

## Production site Purwakarta

Indonesia

- Viscose fibers
  **Capacity: 320,000 tons p.a.**

## Production site Heiligenkreuz

Austria

- Lyocell fibers (TENCEL®)
  **Capacity: 65,000 tons p.a.**

- Production site for fibers/pulp
- Production site Lenzing Technik
- Production site acrylic fibers
- Offices

# PRODUCTS OF THE LENZING GROUP

## Segment Fibers

The Lenzing Group is the global leader in the production and marketing of man-made cellulose fibers for the textile and nonwovens industry.

### TENCEL®


TENCEL® is produced using the lyocell process, which won the European Award for the Environment from the European Union as an environmentally friendly technology. Unique physical properties such as tenacity (especially when wet), moisture management and pleasantness to the skin make TENCEL® an appealing material for a wide range of uses.

#### Uses of TENCEL® in textiles

- Quilts, bedwear, mattresses, sleeping bags
- Shirts, blouses, pants, denim, sportswear, outerwear, workwear
- Various technical applications

#### Uses of TENCEL® in nonwovens

- Wipes for baby care, cosmetics and household use and for industrial applications
- Uses in female hygiene (panty liners, sanitary pads)
- Medical wound pads, surgical swabs and components for surgical outer garments in the medical field
- Various technical applications

TENCEL®

### Lenzing Viscose®

With more than 75 years of experience in producing viscose fibers, Lenzing sets the international quality standards in the industry for this product. Lenzing Viscose® is considered a premium product on the world market and is typically used in ladies' outer garments, such as elegantly flowing printed dresses. Because of its purity, pleasantness to the skin and natural absorbency, Lenzing Viscose® is an outstanding choice for sensitive hygiene applications.

#### Uses of Lenzing Viscose® in textiles

- Woven and knit garments (blouses, dresses, tops)

#### Uses of Lenzing Viscose® in nonwovens

- Wipes for baby care, cosmetics and household use and for industrial applications
- Wound dressings, surgical swabs and components for outer garments for medical surgery
- Tampons in the hygiene segment

LENZING Viscose®

## Segment Other

#### Acrylic fibers:

Special homopolymeric and copolymeric acrylic fibers

#### Areas of application

- Car tops
- Sun shades and awnings
- Indoor and outdoor furniture
- Technical fibers for filtration and building sectors

## Lenzing Modal®

Lenzing Modal® is manufactured from the natural raw material beech wood at the Lenzing facility for specialty products utilizing unique integrated process management (Edelweiss technology). Besides being especially soft and pleasant to the skin, the fibers are known for their luster and brilliant colors. The lasting softness plus their high degree of absorbency lend them excellent traits and render them the ideal material for blending with cotton.

### Uses of Lenzing Modal® in textiles

- Homeware
- Fashion knitwear
- Underwear and socks
- Terry products

LENZING Modal®

## Lenzing FR®


Made from the natural raw material wood, this fiber offers protection from heat in a variety of work areas. With its extraordinary characteristics with respect to heat insulation and moisture management, Lenzing FR® reduces the risk of heat stress or heatstroke and increases protection from first- to third-degree burns.

### Uses of Lenzing FR® in textiles

- Protective wear for industry, fire departments and the military
- Flame resistant fabrics for public transport (aircraft, trains)
- Flame resistant fabrics for furniture
- Thermal insulation systems for protective jackets

Lenzing FR®

## Segment Lenzing Technik

The Segment Lenzing Technik mainly encompasses Lenzing Technik GmbH and its subsidiaries Lenzing Engineering & Technical Services (Nanjing) Co., Ltd. and LENO Electronics GmbH. The segment employs a total of about 650 employees and implements projects, supplies equipment and provides services around the world in the following areas:

### Engineering and Contracting:

- Pulp technology
- Fiber and environmental technology
- Filtration and separation

### Mechanical Construction and Services:

- Mechanical construction
- Metal sheet technology
- Industrial services

### Automation and Mechatronics:

- Process automation
- Robotics
- Mechatronics


TENCEL®

# MANAGEMENT REPORT **2014**

# MANAGEMENT REPORT 2014

## General Market Environment

### Global economy[1]

The global economy never really picked up momentum in 2014. The International Monetary Fund (IMF) recently projected average global economic growth of 3.3% for the entire year under review, the same as the 3.3% figure for 2013. The global economic upturn continues to be overshadowed by the after-effects of the financial crisis and increasing geopolitical tensions.

However, an uneven development was perceptible among the various regions of the world. The US economy expanded more strongly than expected, whereas growth in most other Western industrialized countries turned out to be disappointing. The eurozone was able to put the recession behind it in 2014, but its economic development still remained unsatisfactory and even led to a decline in economic output in several eurozone peripheral countries. Against this backdrop, the developing and emerging markets did not succeed in generating any perceptible economic impetus for the global economy.

The latest IMF forecasts for the industrialized countries expect GDP to expand by 1.8% in 2014 (2013: 1.3%). According to the IMF, the economy of the eurozone will expand by 0.8% (2013: minus 0.5%). The 2.4% growth in the USA was higher than the prior-year level of 2.2%, whereas growth of the emerging market economies at 4.4% comprised a slight decline from 4.7% in 2013.

According to the most recent IMF forecasts, economic growth in China, the largest sales market for the global fiber industry, slowed down to 7.4% in 2014 compared to 7.8% in the previous year. The prevailing trend towards falling economic growth rates which has affected China for several years continued during the year under review. The world's second largest economy has been in the midst of a transition from a strongly export-oriented economy marked by a high consumption of natural resources and still relatively favorable wage costs to a more sustainable growth model featuring growing domestic consumption and rising wages. As a result, China's central authorities are trying to reduce the strong growth in loans and investments dominating the economy in the past, and pursued a very restrictive monetary policy in 2014.

### Global fiber market[2]

#### Largely constant growth of global fiber production

Growth of world fiber production in 2014 largely remained at the prior-year level, and was thus below the long-term average. The fiber market was oversupplied throughout the entire year, even if private consumption rose somewhat in the industrialized countries and hovered at a high level in the emerging Asian markets. Similar to the previous year, considerable surplus production capacities and record high cotton inventories, especially in China, dominated the global fiber market in 2014.

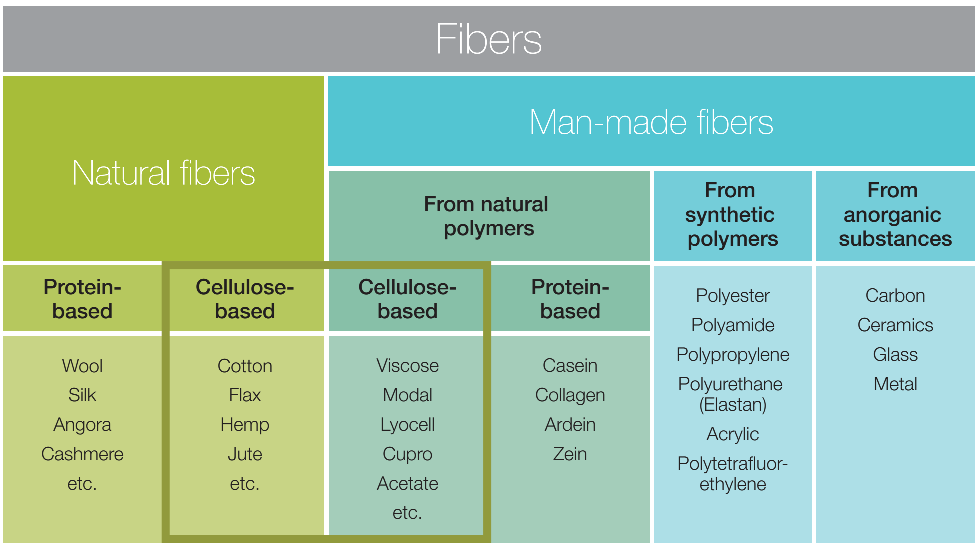
1) International Monetary Fund, World Economic Outlook Update, January 20, 2015 2) All production figures in this section were updated to the currently accepted values in comparison to the initial estimates published in Lenzing's Annual Report 2013. Refer to the International Cotton Advisory Committee (ICAC), International Monetary Fund, Cotton Outlook, CCF Group (China Chemical Fibers and Textiles Consulting).

According to initial estimates, world fiber production rose by 1.9% in the year under review less pronounced than the 3.6% increase in 2013, with total volume increasing from 87.7 mn tons to 89.4 mn tons.

Preliminary figures show a 2.9% increase in global fiber consumption from 84.9 mn tons in 2013 to 87.4 mn tons in 2014, somewhat higher than the related rise in fiber production.

As in previous years, production growth was almost exclusively due to the higher production volumes of chemical fibers, for the most part in China. The Chinese chemical fiber industry was once again on a clear growth path in 2014, as in the years before, with production expanding by 7.2%. As a consequence, Chinese producers further expanded both their dominant position on the world market as well as their excess capacities. In spite of partially negative profit margins, investments were made in polyester production facilities as well as in viscose fiber capacities. Accordingly, an excess supply is likely to continue shaping the fiber market in the foreseeable future.

### Fibers on the world market




### Cotton inventories remain at historically high levels[3]

Cotton production in 2014 stagnated at the prior-year level of 26.3 mn tons. Although cotton consumption increased by 3.4% year-on-year to 24.3 mn tons, the growth in consumption was not sufficient enough to reduce the historically high global cotton inventories. On the contrary, it is expected that cotton stocks will climb to a new all-time high level of 21.5 mn tons after the

[3] Source: ICAC February 2015

# MANAGEMENT REPORT 2014

end of the current 2014/15 cotton harvest in August 2015, representing an increase of 10% from the 2013/14 harvest. The increase in cotton inventories even totals 151% compared to the 15-year all-time low of 2009/10. The global stock-to-use ratio in the 2014/15 cotton harvest season is estimated at 89%. As a consequence of this high level, a recovery of fiber selling prices is very improbable in the foreseeable future.

The lion's share of cotton stocks are in China, as a result of a state-controlled cotton stockpiling policy pursued over a period of several years. Up until now, this has only had adverse effects on the entire cotton textile industry in China.

Wool production remained largely unchanged at about 1.1 mn tons, similar to 2013.

## Significantly weaker growth of chemical fiber production

Chemical fiber production grew steadily in 2014, but at a significantly lower rate than in 2013, which is due to cyclical reasons. According to preliminary figures, global chemical fiber production showed a rise of 2.8%, driven by increased activity in China, and reached a new all-time high production level of 62.0 mn tons (2013: 60.3 mn tons, 6.1% growth).

The synthetic fiber polyester, whose sales are expected to rise 3.4% from the comparable level of 2013, accounts for approximately three quarters of chemical fiber production. The production of polyamide fibers and polypropylene remained virtually unchanged, whereas the production volume of acrylic fibers declined.

Once again China generated the biggest rise in 2014, with production up 7.2% (2013: 8.5%) to 42.8 mn tons. As a consequence, the country's share of total global chemical fiber production climbed to almost 70% in 2014. Chemical fiber production volumes also increased in the USA, Indonesia and Turkey, but at a much lower level. In contrast, chemical fiber production reportedly declined in Western and Eastern Europe, Japan, Brazil and India.

## First-time consolidation trend for man-made cellulose fibers

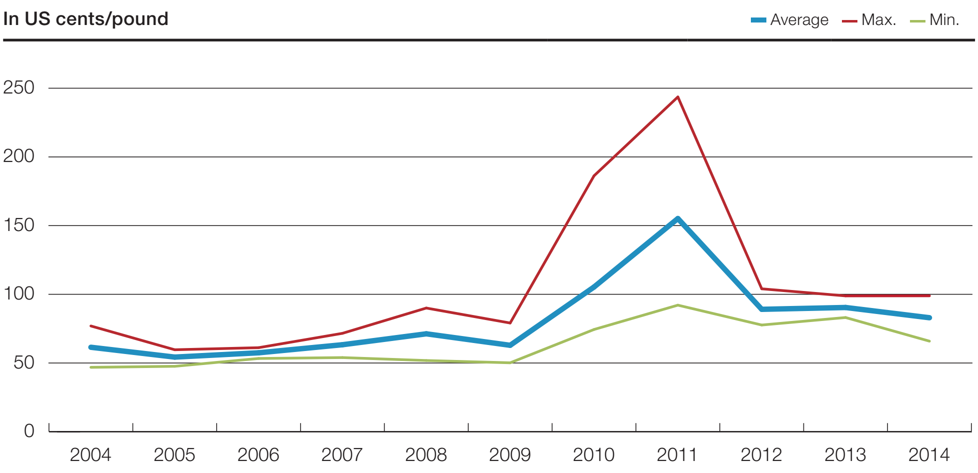
Production figures for the man-made cellulose fiber industry showed clear signs of consolidation for the first time in 2014 after many years of dynamic increases featuring double-digit growth rates. Preliminary figures indicate a rise of 2.0% in the global production of man-made cellulose fibers in 2014 (2013: 9.3%), from 5.9 mn tons to 6.0 mn tons, expanding at a somewhat lower rate than overall chemical fiber production. The underlying reason was the delay in capacity expansion projects in China and Turkey as a consequence of the downward trend in selling prices. Nevertheless, other expansion projects implemented in China, India and Austria along with the globally high level of capacity utilization served as the basis of a slight rise in production volume despite the difficult fiber year 2014. In a long-term comparison between the years 2000 and 2014, the man-made cellulose fiber industry more than doubled total production, growing at a faster rate than the synthetic fiber industry. Good demand for man-made cellulose fibers is also expected in the future.

## Renewed turmoil on the cotton market

In terms of total volume, cotton remains the most important fiber for the clothing industry. The cotton price is considered to be a benchmark for the entire fiber industry. The average on the Cotton A Index in the 2014 financial year was 83.0 US cents per pound, substantially below the average of 90.4 US cents per pound in 2013.

The long-term development (in US cents/pound) is shown by the following chart:

### Development of the cotton price




Source: Cotton Outlook

Following the record prices paid for cotton in the years 2010/11 driven by the shortage of cotton, annual price margins perceptibly declined. It became easier again for cotton processors to calculate the cotton price. However, as a result of the sharp decline in cotton selling prices which set in starting in the middle of 2014 (minus 30%), there was a much bigger gap once again between the minimum and maximum value.

The Cotton A Index started the calendar year 2014 at 89.7 US cents per pound, climbed to 98.1 US cents per pound at the end of March 2014 and subsequently dropped to 89.3 US cents per pound at the end of June 2014. New lows of 66 US cents per pound were tested from the onset of the new cotton harvest season at the beginning of August until the end of 2014. This level was last reached in 2009. The Cotton A Index closed the year 2014 at 70.0 US cents per pound.

One reason for this dramatic downward development was a change in the cotton stockpiling policy of the People's Republic of China. Cotton import quotas were reduced to only 900,000 tons p.a., leading to sales difficulties for export-oriented cotton producing countries such as the USA and India. This was complemented by irregular changes and adaptations of China's

# MANAGEMENT REPORT 2014

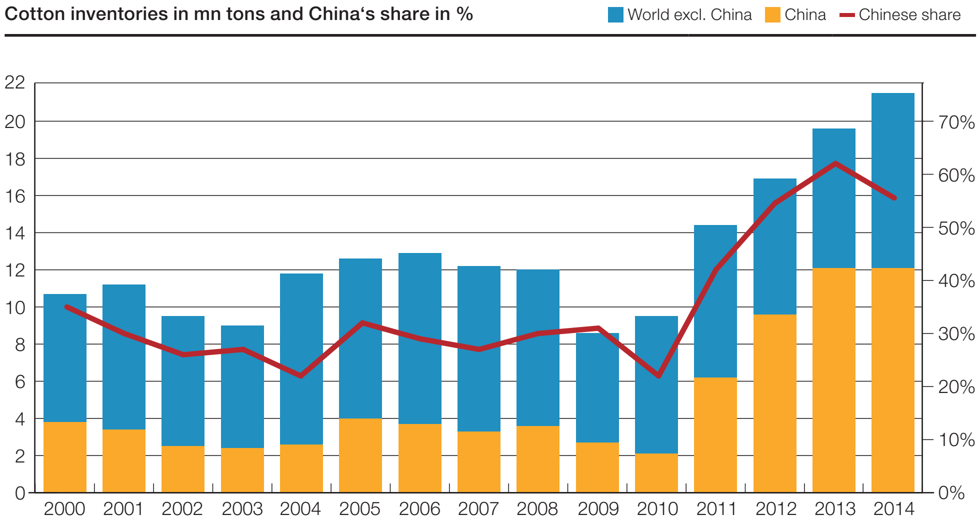
subsidy policies for cotton which were incomprehensible to outside observers. The current policy is no longer designed to regulate market prices but to directly prop up the income of cotton farmers, especially in troubled Xinjiang province. In turn, this will result in an ongoing excess supply of cotton, according to market analysts. The price decline triggered by all these developments and uncertainties was aggravated even more by expectations of a higher cotton harvest in 2014/15.

## Ongoing high cotton stockpiles in China

In the absence of US-American and Indian cotton exports to China, Chinese cotton inventories stagnated at a high level. However, international stocks of cotton continued to increase. China accounts for considerably more than half of the world's cotton inventories.

### Continuing major importance of China

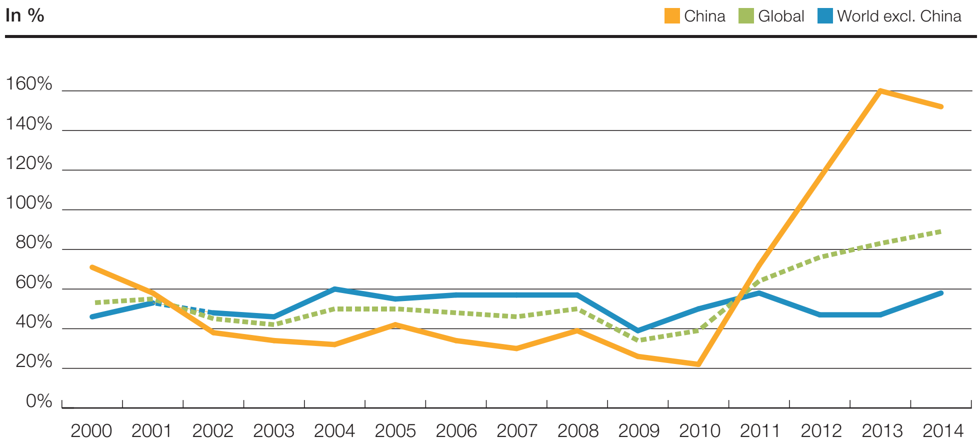
**Cotton inventories in mn tons and China's share in %**




Source: ICAC

### Stock-to-use ratio for cotton

In %

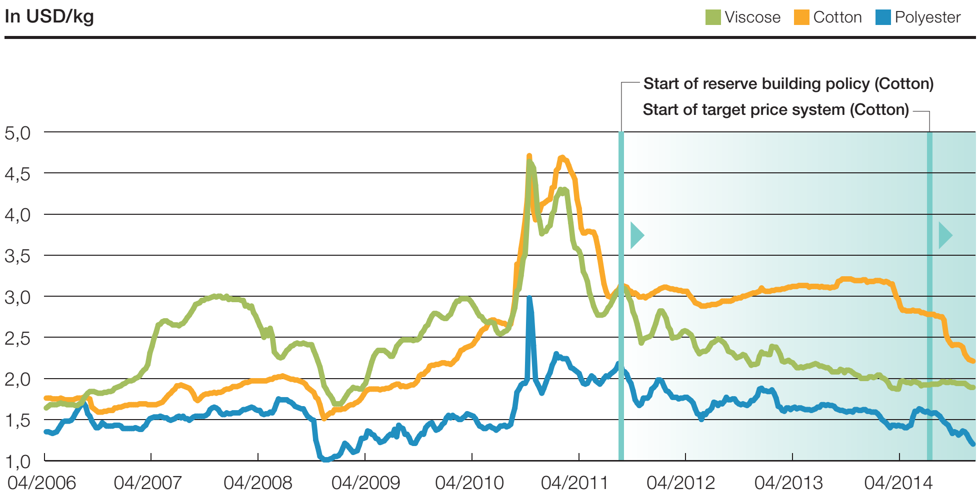



Source: ICAC

The stock-to-use ratio for cotton in China was down slightly in 2014, but still is higher than total world consumption for about one and a half years.

### Staple fiber prices – development in China

In USD/kg




Source: CCFG, Cotton Outlook

Cotton selling prices in China, the world's most important fiber market, fell sharply starting in the middle of the year. Viscose fiber prices also declined but to a much lesser extent. The drop in selling prices was due to the change in the previous cotton stockpiling and subsidy policies of the Chinese Government.

# MANAGEMENT REPORT 2014

### Viscose fiber prices largely stable at a low level

Global viscose staple fiber prices stayed at a largely stable but low level throughout the entire year 2014. At the beginning of the year selling prices were at CNY 12,280 per ton, and hovered at a level of about CNY 12,000 in the entire first half of 2014. A perceptible upward trend at the beginning of the second quarter ended up not having a lasting effect. Starting in the third quarter, spot market prices once again fell slightly, decreasing to CNY 11,550 per ton by the end of 2014.

Whereas a price discount of viscose vis-à-vis cotton could be observed in the first half of the year, the decline in cotton prices in the second half of 2014 restored the longstanding 5-10% price premium for viscose fibers. However, there were substantial price decreases for viscose fibers at the end of the fourth quarter, which can be attributed to the massive drop in polyester prices. In turn, this resulted in a reduction of the price premium for viscose compared to cotton.

Surplus production capacities, which were built up and debt-financed during the past high-price phase, continue to shape developments on the Chinese viscose fiber market. This leads to strong pressure to keep capacity utilization as high as possible, even if the manufactured fibers are sold at marginal cost, in order to generate sufficient cash to pay back loans. This trend is further aggravated by low dissolving pulp selling prices caused by global surplus pulp production capacities. Price pressure is expected to continue as long as these excess capacities in China are not absorbed by growing demand.

During the course of the year, viscose fiber prices remained largely stable on a low level on most of the sales markets outside of China. However, Chinese manufacturers generated strong price pressure both on their own domestic market and on Asian export markets.

### Free fall of polyester fiber prices

The drastic decline in crude oil prices which started in the second half of 2014, consequently led to an acceleration of the drop in polyester fiber selling prices which was already perceptible during the course of the year. At the beginning of the year, spot market prices for polyester in Asia equaled about USD 1.38 per kilogram, subsequently falling to between USD 1.05 and USD 1.15 per kilogram by the end of 2014.

## Development of the Lenzing Group[4]

In the 2014 financial year, the Lenzing Group profited from ongoing good volume demand in its core business of producing man-made cellulose fibers, serving as the basis for achieving an all-time high sales volume. All fiber production facilities were operating at full capacity throughout the entire year. This gratifying volume development in the first half-year was in contrast to the renewed downward trend in average fiber selling prices. In the course of the second half of 2014, Lenzing managed to stabilize its fiber selling prices, though at an unsatisfactory level. This situation, comprehensive cost savings measures within the context of the excelLENZ initiative, the good ramp-up of the new TENCEL® fiber production plant at the Lenzing site and the new record sales volume enabled the Lenzing Group to generate a significant improvement in its operating results compared to the 2013 financial year in spite of facing a difficult market environment. However, adjustments to goodwill, other intangible assets and property, plant and equipment to the amount of minus EUR 94.0 mn resulted in a net loss of minus EUR 14.2 mn in the 2014 financial year.

In the 2014 financial year, consolidated revenue fell slightly by 2.3% to EUR 1.86 bn from EUR 1.91 bn in the previous year (including EUR 49.9 mn from discontinued operations) despite the higher fiber sales volumes. The main reasons for this development were the sale of the Business Unit Plastics (discontinued operations) in the course of 2013 as well as the average fiber selling prices of the Lenzing Group, which once again fell by about 8% during the year under review to EUR 1.57 per kilogram.

On a like-for-like basis of continuing operations, consolidated revenue rose 0.3% from EUR 1,859.0 mn to 1,864.2 mn.

Total fiber sales volumes climbed by around 8% from approx. 890,000 tons in 2013 to about 960,000 tons in 2014.

The core Segment Fibers accounted for 94.2% of consolidated revenue, whereas the Segment Lenzing Technik generated 2.3% and the Segment Other contributed 3.5% to consolidated revenue (only external sales).

Other operating income rose to EUR 48.5 mn in a like-for-like comparison from the prior-year level of EUR 36.6 mn. This increase was mainly due to payments for green electricity as well as currency translation effects.

EBITDA[5] (earnings before interest, taxes, depreciation and amortization) of the Lenzing Group of EUR 240.3 mn was up 24.0% (2013: EUR 193.9 mn from continuing operations). The EBITDA margin improved to 12.9% (2013: 10.4% on a like-for-like basis). The ratio of net financial debt to EBITDA[6] also improved to 1.9 (2013: 2.6 from continuing operations). Thus this important performance indicator was clearly below the maximum of 2.5 defined by the Lenzing Group.

In spite of a 7% rise in fiber production volumes, Lenzing succeeded in reducing the cost of material and other purchased services by 2.0% to EUR 1.20 bn (2013: EUR 1.22 from continuing operations). This can be attributed, among other things, to better procurement terms and

4) The definition of financial indicators can be found in the glossary
5) All of the following comparative figures for 2013 refer to continuing operations (like-for-like).
6) In relation to the Group

# MANAGEMENT REPORT 2014

conditions as a result of the excelLENZ cost reduction drive, the further drop in pulp prices compared to 2013 as well as more favorable purchase prices for chemicals.

The cost savings effects in operating costs such as logistics and raw material purchases generated in 2013 by the excelLENZ cost savings program were further improved in the 2014 financial year. Wood prices at the Lenzing and Paskov pulp production sites hovered at a high level due to the ongoing strong demand for wood utilized to generate energy.

On balance, the cost of material and other purchased services comprised 64.3% of consolidated revenue in the 2014 financial year (2013: 65.8% from continuing operations).

Personnel expenses were down from EUR 326.0 mn in 2013 (from continuing operations) to EUR 292.0 mn in 2014, a drop of 10.4%. This decrease reflects the cost savings achieved from the new organizational structure, which impacted personnel expenses, especially starting in the second half of 2014. This more than compensated for the hiring of an additional 140 employees required to fully operate the new TENCEL® fiber production plant at the Lenzing site, increases mandated by the collective wage agreement in Austria and the sharp rise in personnel expenses at the production sites in China and Indonesia.

Personnel expenses in the 2014 financial year dropped to 15.7% of consolidated revenue, a decline in comparison to the previous year's figure of 17.5% (from continuing operations).

Despite the substantial rise in production and sales volumes, other operating expenses could be reduced by 1.6% on a like-for-like basis to EUR 213.3 mn. In particular, this can be attributed to further cost optimization measures implemented as part of the excelLENZ program.

The depreciation of property, plant and equipment and the amortization of intangible assets climbed 60.2% to EUR 221.5 mn (2013: EUR 138.3 mn from continuing operations). Due to the changed medium-term viscose fiber selling price expectations, medium-term planning for the subsidiaries PT. South Pacific Viscose (Indonesia) and Lenzing Nanjing Fibers (China) was adjusted to reflect the new market conditions. This led to a downward adjustment in the valuation of goodwill, property, plant and equipment and other intangible assets recognized in the consolidated financial statements of 2014 to the amount of EUR 94.0 mn (refer to Notes 19 and 20 in the consolidated financial statements of the Lenzing Group as at December 31, 2014). These are non-cash measures and do not negatively impact the liquidity and net financial debt of the Group.

For this reason, earnings before interest and taxes (EBIT) of the Lenzing Group fell to EUR 21.9 mn from the prior-year EBIT from continuing operations of EUR 58.6 mn. The EBIT margin was 1.2% (2013: 3.2%).

The financial result of minus EUR 23.4 mn was better than the comparable financial result of minus EUR 26.7 mn in the previous year. This is primarily due to positive currency translation effects. The average interest rate on financial liabilities in the 2014 financial year remained unchanged at 2.8%.

Accordingly, earnings before taxes (EBT) of the Lenzing Group totaled EUR 7.3 mn (2013: EUR 41.0 mn from continuing operations).

The income tax expense amounted to EUR 21.5 mn (2013: EUR 10.3 mn from continuing operations). This resulted in a loss for the year of minus EUR 14.2 mn in the 2014 financial year, compared to a profit for the year of EUR 30.6 mn from continuing operations in 2013. Earnings per share were at minus EUR 0.51 (2013: EUR 1.16 from continuing operations).

## Stable equity ratio

In the year under review, the balance sheet total of the Lenzing Group declined slightly to EUR 2.38 bn from EUR 2.44 bn in 2013. Adjusted equity[7] of the Lenzing Group fell from EUR 1.11 bn to EUR 1.07 bn. As a result, the adjusted equity ratio deteriorated slightly from 45.5% to 44.9% of the balance sheet total.

Net financial debt of the Lenzing Group fell to EUR 449.5 mn from EUR 504.7 mn at the end of 2013 due to the company's active working capital management. As a consequence, net gearing improved to 42.2% from the prior-year level of 45.5%.

The liquid assets[8] of the Lenzing Group declined slightly as planned to EUR 280.3 mn from EUR 296.0 mn in 2013, which is mainly due to the fact that payments related to completion of the TENCEL® fiber production plant in Lenzing were largely concluded by the end of 2014. In addition, the company had sufficient unused lines of credit available for its use in 2014 to the amount of EUR 198.5 mn (2013: EUR 296.2 mn).

Investments in intangible assets, property, plant and equipment (cash CAPEX) were significantly cut back in the 2014 financial year to EUR 104.3 mn (2013: EUR 248.7 mn incl. Business Unit Plastics). The focal point of the investment activity was completion of the TENCEL® fiber production plant including adjacent buildings at the Lenzing site as well as efficiency and modernization investments in the fields of energy and fiber production.

## excelLENZ cost savings program

The cost reductions initiated in the 2013 financial year within the context of the excelLENZ cost savings initiative were intensified in 2014 and the original measures were further sharpened due to the ongoing difficult price situation in the fiber business. The original targeted savings of about EUR 60 mn in 2014 could be increased to far more than EUR 100 mn and were actually achieved. About one quarter of the cost reductions involved personnel expenses, with remaining cost decreases equally relating to reductions in material costs and operating efficiency improvements as well as cost reductions in general administrative expenses.

The specific measures implemented include delays in maintenance investments, optimization of purchasing and a stop to capacity expansion measures in fiber production with the exception of the successful completion of the TENCEL® fiber production facility in Lenzing in the

[7] Equity including government grants less proportionate deferred taxes [8] Incl. current and liquid securities, cash and cash equivalents

# MANAGEMENT REPORT 2014

summer of 2014. Investments designed to maintain quality and safety were not impacted by the cost savings.

On balance, the number of employees working for the Lenzing Group was reduced by about 650 full-time equivalents (FTE's) within the context of this cost-cutting drive, of which 123 FTE apply to the 2013 financial year. These staff reductions took place without any legal conflicts. In Lenzing, the company's largest site, a large number of creative solutions implemented as part of the redundancy program[9] ("social plan") agreed upon with employee representatives helped to completely avoid any layoffs.

Moreover, the management of the Lenzing Group resolved to increase the original savings to be generated by the year 2016 from EUR 120 mn to EUR 160 mn, and to achieve these savings earlier than planned on the basis of further structural measures and a series of one-off effects. For this purpose the Lenzing Group had allocated provisions of EUR 11.2 mn at the end of 2014.

## Successful implementation of a functional organizational structure

The organizational structure of the Lenzing Group was realigned at the beginning of the year 2014 in response to changed global conditions in the fiber industry. The former divisional segmentation in the Business Unit Textile Fibers and Business Unit Nonwoven Fibers was terminated and replaced by a functional Group organization. In contrast to the former organizational structure, a functional orientation has the advantage of more quickly driving business development across all segments, generating additional synergies and avoiding unnecessary duplication.

Within the context of this strategic realignment, two new globally operating areas were established, i.e. Sales and Business Development. Furthermore, it was decided to even more resolutely implement Lenzing's specialty strategy. This took place in the light of the coming on stream of the TENCEL® fiber production plant at the Lenzing site, which has been operating at full capacity since September 2014.

As a result of the reorganization and the resignation of Friedrich Weninger from the Management Board, the responsibilities of Management Board members were redefined starting January 2015 as follows.

[9] For details refer to the section on "Human Resources".

**Peter Untersperger (CEO) is responsible for the following areas:**

- Global Strategy
- Global Human Resources
- Corporate Communications
- Investor Relations
- Internal Audit
- Legal Management & Compliance
- Wood Purchasing
- Global Pulp & Fiber Operations

**Robert van de Kerkhof (CCO) has management responsibility for:**

- Global Sales, Marketing & Business Development
- Technical Customer Service & Quality Management
- Innovation & Strategic R&D
- Corporate Sustainability
- Global Safety, Health & Environment (SHE)
- Global Logistics

**Thomas Riegler (CFO) is in charge of:**

- Global Finance & Controlling
- Global Purchasing
- Pulp Trading
- Global IT
- Global Risk Management

# MANAGEMENT REPORT 2014

## Segment Fibers

### General development

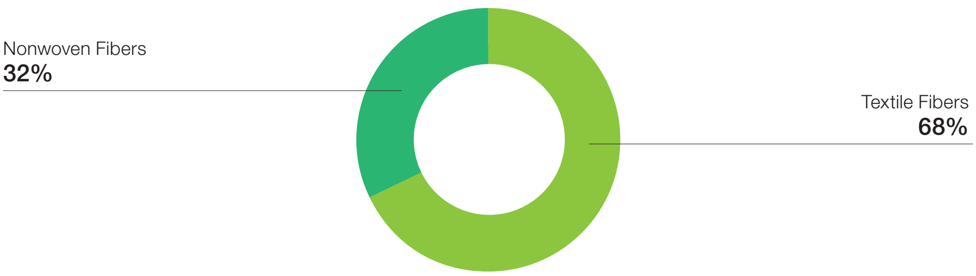
Very good volume demand for all Lenzing fiber products against the backdrop of unsatisfactory prices characterized the business development of the Segment Fibers in 2014. The first half-year was shaped by the continuing decline of average Lenzing fiber selling prices. Starting in the middle of 2014, average fiber prices could be stabilized for the first time in more than two years in spite of ongoing difficult market conditions.

Lenzing generated record sales volumes of 960,000 tons (2013: 890,000), with all fiber production plants operating at full capacity. All-time high sales volumes were achieved in both the textile fiber segment, at 664,000 tons (2013: 621,000) and 297,000 tons of nonwovens (2013: 269,000). The volume increases can not only be attributed to the very good volume development at the viscose fiber production sites, but also to the successfully coming on stream of the new TENCEL® fiber plant at the Lenzing site in Upper Austria, which positively impacted the specialty fiber business. This was complemented by higher production and sales volumes for Lenzing Modal® and Lenzing FR®. In contrast, production volumes at the viscose fiber production site in Nanjing, China were lower than planned due to an officially decreed reduction of industrial production during the duration of the Nanjing 2014 Youth Olympic Games in the summer of 2014. Fiber inventories of the Lenzing Group were at an average level in 2014.

The new sales record was even more gratifying in light of the high surplus production capacities dominating the market, particularly in China. This was accompanied by the ongoing low selling prices for pulp which burdened price levels. In the second half of the year cotton prices declined sharply as a result of the change in China's cotton policy, putting additional pressure on the global fiber market. Polyester selling prices also suffered from a massive decline as a consequence of slumping oil prices, which in turn also negatively impacted fiber prices.

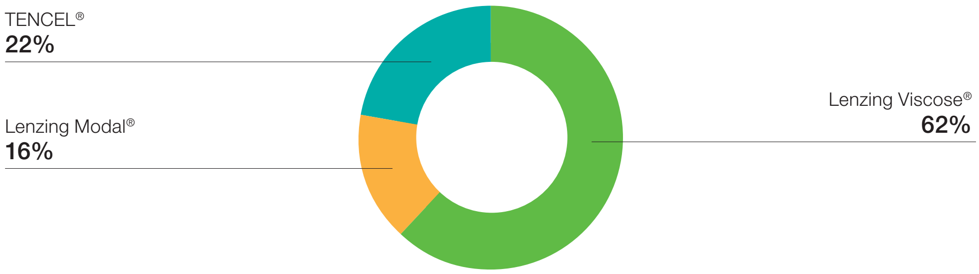
#### Fiber sales

**By area in %**



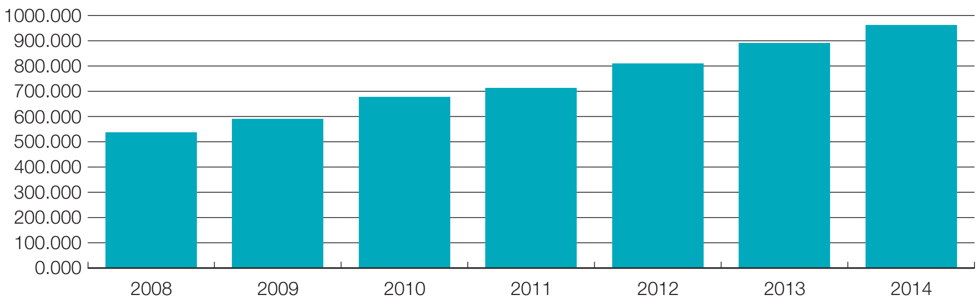
## Fiber sales

**By product group in %**



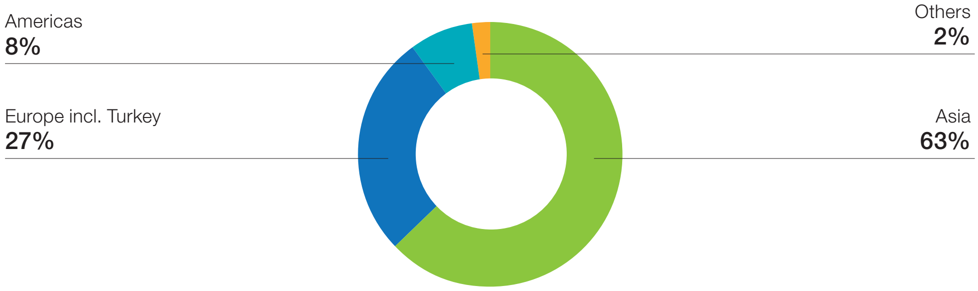

## Fiber sales volumes

**In tons**




## Fiber sales volumes by key market

**In % (basis: 960.8 kilotons)**



# MANAGEMENT REPORT 2014

## Revenue and earnings development

Thanks to all-time high sales volumes, segment reporting of the Segment Fibers rose slightly in 2014 to EUR 1,755.6 mn (2013: EUR 1,754.5 mn) due to the lower fiber selling prices. Segment EBITDA climbed to EUR 223.2 mn (2013: EUR 205.7 mn). The EBITDA margin of the Segment Fibers ended up to be 12.7% (2013: 11.6%).

Lenzing fiber selling prices decreased further in the first half of 2014 in comparison to the end of 2013, both in the textile fiber and nonwoven fiber segments. However, selling prices in both areas could be clearly stabilized in the third quarter of the year. The improved product mix resulting from the ramp-up of the new TENCEL® fiber production plant in Lenzing was reflected in slightly improved Lenzing fiber selling prices for the first time again in the fourth quarter of 2014 compared to previous quarterly periods for both textile and nonwoven fibers. The volatility prevailing during the year was considerably higher for cyclically-sensitive textile fibers than for nonwovens. Towards the end of 2014, the average Lenzing selling prices for its textile fibers came closer to price levels for its nonwoven fibers, which had clearly been higher in the previous months.

Lenzing decided to refrain from constructing a new viscose fiber plant in India due to the changed medium-term market expectations. The previously acquired facilities or those under construction were already written down in the consolidated financial statements for 2013. Lower selling price expectations for viscose fibers led to adjustments in the valuation of goodwill, property, plant and equipment and other intangible assets of the subsidiaries PT. South Pacific Viscose, Indonesia and Lenzing Nanjing Fibers, China (also refer to the section *Development of the Lenzing Group* and Notes 19 and 20 in the consolidated financial statements of the Lenzing Group as at December 31, 2014).

## Successful start-up of the TENCEL® fiber plant in Lenzing

Production was successfully initiated at the new TENCEL® jumbo production facility located in Lenzing, Upper Austria in the 2014 financial year. Construction lasted for two years as scheduled. The production process was stable from the very beginning, and the first sales volumes were sold at the beginning of the second half of the year.

With the new Lenzing plant it is the first time that a single production line with an annual nominal capacity of 67,000 tons was installed. Previous TENCEL® production lines were usually only half as large, featuring annual capacity of 30,000 tons. The new plant design incorporates lessons learned from the long-standing experience of three existing Lenzing Group TENCEL® production plants located in Austria, USA and Great Britain. As a consequence, the new TENCEL® plant in Lenzing represents the second generation of TENCEL® technology. The new design of the jumbo production line enabled investment costs to be maintained at a very competitive level of approximately EUR 150 mn (about EUR 2,200 per ton of capacity). Compared to first generation TENCEL® fiber production plants, this technological leap reduces the specific investment costs for the new Lenzing TENCEL® technology by two-thirds. The successful start-up of production once again underscores Lenzing's global leadership in the plant design of lyocell fiber plants.

The TENCEL® fiber production in Lenzing already secures 140 high quality jobs at the Lenzing site.

Thanks to the new plant, annual nominal TENCEL® production capacity of the Lenzing Group will rise from 155,000 tons p.a. to about 220,000 tons. In this way Lenzing will further expand upon its undisputed global market leadership for lyocell fibers.

## Business Development

The Business Development unit spanning the entire Lenzing Group was newly created at the beginning of 2014 as part of the company's reorientation towards a functional organizational structure. Business Development has a staff of about 60 employees and is divided into four sub-segments, namely Apparel, Home Textiles, Nonwovens and New Business Development & Technical. The interim manager is Management Board member Robert van de Kerkhof (CCO).

The new structure of the organization has two strategic objectives in mind. First, on an internal level the Business Development team should work more closely linked with the Sales and Research and Development areas. Second, targeted marketing strategies should be developed for the individual segments in order to more effectively implement the overall strategy and thus be able to more efficiently operate on the marketplace.

**The following four core tasks were defined for Business Development:**

- Increase the market share with existing customers.
- Further develop the market for existing products ("market development"), for example by opening up new sales markets and countries or new applications for the fibers.
- Sell new products to existing customers ("product development"), for example target customers who have processed only Lenzing Modal® but not yet MicroModal® or Lenzing Modal® COLOR. Other examples of product developments are mattress foam made of TENCEL® powder, TENCEL® short-cut fibers for moist toilet paper or vegetable packaging nets from Lenzing Modal® COLOR.
- Launch new products on the market together with new customers ("diversification").

The Lenzing Group already has a strong market position today for its specialty fibers TENCEL® and Lenzing Modal®. Thanks to new product developments, Lenzing can optimally offer products in line with the fashion trend towards enhanced "softness". In addition to denim and knitwear applications, another development focus in 2014 was on combining TENCEL® A100 with wool for sportswear and integrating MicroModal® in air-jet technology applications.

# MANAGEMENT REPORT 2014

### New Business Development & Technical

The New Business Development (NBD) business area was also set up to systematically identify and cultivate market niches with attractive margins.

Based on its pronounced technical competence, application innovations are developed with TENCEL® and Lenzing Modal®. From a market perspective, fiber-related "value propositions" are defined and implemented in cooperation with Research & Development and Sales. NBD has been assigned a broad range of areas to focus on e.g. technical coating fabrics, TENCEL® in shoes (project "shoe complete") and sustainable twines for the agricultural sector. The market entry for biodegradable fruit and vegetable packaging nets was successfully carried out, with the Lenzing Group winning various innovation awards.

TENCEL® short-cut fibers are successfully positioned in various applications. The fibrillated fibers are excellently suited for filtration and for electric separation papers. Stable, attractive market niches were established for the short-cut fibers produced in Grimsby, featuring a cut length of 6-10 millimeters. These short-cut fibers are mostly processed on special machines in the so-called wet-laid nonwoven process.

Demand for inherently flame-resistant Lenzing FR® fibers perceptibly rose in the second half of the year. In addition to public sector users such as the police force and military, interest in the fiber for industrial protective clothing also increased significantly. Fiber innovations such as the new range of spun-dyed Lenzing FR® contributed to the positive overall image of the fiber.

Specialty applications such as TENCEL® flock fibers for packaging surfaces and textiles with a velvety look and TENCEL® reinforcement fibers for thermoplastics will be launched on the European market for the time being in the course of 2015.

## Textile Fibers

The weak price trend prevailing in the previous year continued to impact the sales market for standard viscose fibers in the textile fibers segment. As a matter of fact, price pressure actually increased in 2014 as a consequence of the ongoing excess production capacity in China and what turned out to be a weak global economic upturn. However, volume demand remained strong and continued to grow in 2014.

In the Apparel business area, the Lenzing Group counteracted the ongoing drop in selling prices for standard fibers by opening up and developing new markets and intensifying sales activities for specialty fibers.

### Marketing focus on TENCEL®

Among Lenzing's portfolio of specialty fibers, TENCEL® sales volumes for apparel developed particularly gratifyingly, with sales up 30% from 2013. This development is in line with the successful coming on stream of the new TENCEL® fiber plant at the Lenzing site. The "Natural Connection" program was intensified in the apparel segment in order to market the additional TENCEL® production volumes. "Natural Connection" aims to promote the blends of cotton and TENCEL®, for example in denim fabrics or shirts. The use of TENCEL® in denim applications developed very positively in 2014. Two thirds of all the companies exhibiting at PV Denim, the leading denim trade show, already used TENCEL® in their collections.

In 2013, the combination of TENCEL® and the INVISTA technology LYCRA® with dualFX® already led to the development of a unique solution to improve the form stability of denim fabrics. In the 2014 financial year, the INVISTA brand COOLMAX® was combined with TENCEL®, thus implementing a further cooperation with respect to denim fabrics in sportswear.

Furthermore, one of the marketing priorities was to promote the use of TENCEL® in knitwear and industrial laundry. Lenzing also successfully positioned itself in the activewear segment with its non-fibrillating fiber TENCEL® A100. On balance, the 2014 financial year once again showed that the unique features of TENCEL® fibers enable the sustainable expansion of applications for this specialty fiber.

The price premium for TENCEL® vis-à-vis standard viscose fibers was gratifying throughout the entire year, although a slight decline was reported in the second half of the year due to sampling and the opening up of new market segments.

**Significant growth for MicroModal®**

The specialty fiber Lenzing Modal® also registered a rise in sales volumes, achieving a new sales record in 2014. In particular, sales of MicroModal® could be increased in 2014 thanks to intensified sales and marketing activities. Demand for the spun-dyed modal fiber Lenzing Modal® COLOR also developed positively.

Sales of the flame-resistant specialty fiber Lenzing FR® also turned out to be gratifying in 2014, clearly surpassing the prior-year sales figures. Lenzing FR® was particularly successful in the growth segment of industrial protective clothing. Modal fibers comprise the basis for Lenzing FR®. Most recently a spun-dyed version of Lenzing FR® is also available with TENCEL® fibers under the brand name Lenzing FR® COLOR.

In 2014, the main sales market for TENCEL® and Lenzing Modal® in the apparel segment was Asia. In particular, there was a strong rise in business generated in Turkey.

## Home & Interiors

The bed linen segment makes up about 75% of the entire Home & Interiors business area at Lenzing. Marketing activities in the linen segment were further expanded during the year under review. The focus was on TENCEL® and its use in different bed-related applications, from mattresses and mattress beds to bedspreads and bed linens. The broad global customer segment shows that end consumers highly value the advantages of TENCEL® bed linens and that its use can be expanded. More than 100 producers already include TENCEL® bed linens in their product line, and are certified according to Lenzing quality criteria. The lion's share or 70% of the manufacturers come from Asia and 30% are based in Europe and Turkey. China was an important marketing priority in 2014, and the company's efforts have borne fruit. In the meantime, home textiles made of TENCEL® or Lenzing Modal® are now on the shelves of ten of the most important Chinese home retail brands.

The "Natural Connection" marketing concept for blends of cotton and TENCEL® are not only found in the Apparel area but have been very well received in the Home & Interiors business. The combination of the two cellulose fibers opens up many possibilities to integrate TENCEL® in relevant products and thus continue with the expansion of TENCEL®.

Accordingly, there were corresponding successes in bed & bath applications in 2014, especially in the USA. A major TENCEL® terry cloth range of products was launched at Target USA. The patented "towel fiber" Lenzing Modal® Loft could be placed at Walmart.

## Nonwoven Fibers

In 2014, the Nonwoven fiber market was also characterized by attractive growth rates, as in the previous financial year, and clearly surpassed the average growth for the fiber market.

As in previous years, the market for wipes accounted for the largest share of Lenzing's sales in the nonwovens sector in 2014. The market in North America and Europe continued to be strong. In particular, sales in the USA further increased. The upward trend continued in Asia in 2014, underscoring the crucial importance of this market for Lenzing. Rising prosperity in the developing and emerging markets enabled above-average growth rates.

### TENCEL® also successful in the nonwovens segment

The global market leadership of TENCEL® is also reflected in the nonwovens segment. In the 2014 financial year, TENCEL® wipes were launched on the European market for the first time under the brand name "Sweeps". Moreover, an innovative product for cosmetic facial masks with TENCEL® Skin was offered, which triggered strong demand, especially on the Asian market. At the INDEX™ trade show in Geneva, Lenzing received an award from EDANA, the international association serving the nonwovens industry for having the most original marketing campaign, namely for TENCEL® Skin.

Using TENCEL® as a short-cut type of fiber, Lenzing is addressing the issue of "flushability" i.e. the problem-free disposal of nonwovens products in the sewage system, which is becoming increasingly important in the nonwovens industry. Consumers dispose of many wipes and care cloths in their toilets, which could lead to clogging problems in municipal sewage systems. As a consequence, the "flushable" function of short-cut TENCEL® fibers comprises a significant added value.

In the field of hygiene products, TENCEL® BIOSOFT has established itself as a hydrophobic lyocell fiber for use in incontinence products. In 2014 the superiority of this fiber compared to polypropylene products was confirmed in a scientific study carried out by the Austrian research institute Joanneum Research ForschungsGmbH.

## Pulp Operations (pulp and wood)

The “Pulp Operations“ functional area ensures the reliable supply of suitable dissolving wood pulp qualities to the production sites of the Lenzing Group. Dissolving wood pulp is the most important raw material used in the production of man-made cellulose fibers, and is derived from the renewable raw material wood. The Lenzing Group operates its own pulp production plants at the Lenzing site in Austria and in Paskov, Czech Republic. In addition, Lenzing also procures pulp from external suppliers on the basis of long-term delivery contracts. Lenzing’s own pulp and the pulp it procures externally take account of clearly-defined economic criteria as well as ecological and life cycle considerations.

During the reporting year, the price erosion on the global market for dissolving wood pulp continued. Following the dramatic decline in prices in the years 2012 and 2013, the average selling prices for dissolving pulp declined by a further 6% in 2014 to USD 840 per ton of air-dried pulp (2013: USD 892, 2012: USD 1,060). For the time being, no sustainable increase in dissolving pulp prices is expected because of the current excess capacities on the global market.

The Lenzing Group produced a total of 554,000 tons of pulp in 2014 (2013: about 523,000 tons). As a result, Lenzing was able to slightly increase its level of self-sufficiency with pulp to 52%. The remaining required pulp was almost exclusively provided by existing long-term supply contracts.

### Pulp production in Lenzing (Austria) and Paskov (Czech Republic)

The annual production volume of 296,000 tons of dissolving pulp[10] at the Lenzing site during the year under review comprise of 1.1% rise in a year-on-year comparison. The fully integrated pulp was processed for the fiber production at Lenzing. Small amounts of pulp were sold outside of the Lenzing Group.

Pulp output at the Paskov plant was further increased by 10% in 2014 to 258,000 tons. In 2013 production was completely converted to dissolving wood pulp for the primary purpose of covering the Lenzing Group’s own needs. Operational processes were optimized during the year under review, enabling a further significant improvement in the use of energy and raw materials. Great progress was made on the production of high quality TENCEL® pulp.

[10] Air-dried

# MANAGEMENT REPORT 2014

### Wood

In 2014, the wood supply for the two Lenzing pulp facilities in Lenzing, Austria and Paskov, Czech Republic was once again secured by a corresponding supply chain management.

The tense supply situation prevailing at the beginning of the year was alleviated by the mild winter with little snowfall. Wood could be uninterruptedly harvested at almost all altitudes throughout Central Europe. Weather-related damage affecting forestry operations took place south of the Alps at the beginning of February 2014, and in May 2014 storm damage caused a perceptible increase in wood quantities available on the market in Slovakia and the Czech Republic. In April 2014, an explosion occurred at an Austrian pulp mill, leading to a substantial decline in pulp production and demand for wood. Accordingly, the reduced wood consumption corresponded to about 8% of the annual volume of wood used by the entire Austrian pulp, paper and chipboard industries.

The good supply situation served as the basis for stable procurement costs in Austria. As a result, timber warehouses were well filled until the end of 2014.

Most of the pulp purchased by Lenzing is certified in accordance with PEFC and FSC standards. Those sources which do not take part in these systems are continually evaluated by wood purchasers or contracted third parties. In this way, it is ensured that all wood suppliers fulfill the strict principles guiding the Lenzing Group's procurement policy.

## Chemicals

The 2014 financial year showed mixed results with regard to the purchase of chemicals. Due to economic developments in Europe and Asia, Lenzing was confronted with market distortions and structural changes affecting suppliers. Nevertheless, Global Purchasing exploited the full potential of global cooperation and succeeded in counteracting market movements. In particular, procurement timing (time of buy) represents an important factor in the purchase of chemicals.

### Caustic soda

Caustic soda (sodium hydroxide) is an important primary product for the production of viscose fibers, and arises as a by-product from chlorine production. Chlorine is used in manufacturing PVC plastic mainly used in the construction industry. For this reason, the development of the construction industry has a major effect on the demand for and price of caustic soda.

The price of caustic soda slightly declined in Europe in 2014. European producers reported a robust level of incoming orders for chlorine. However, demand for the by-product of caustic soda was lower.

The situation in Asia showed a mixed picture. In spite of price increases for energy in China, prices for caustic soda remained constant due to strong competitive pressure on the local market. In Indonesia, the price rose due to the monopolistic market situation and state-decreed energy price increases.

### Sulfur

For the Lenzing Group, sulfur is a key basic product underlying the company's own production of carbon disulfide and sulfuric acid. Sulfur arises as a by-product from oil refining. The higher the quality of the crude oil, the lower is the corresponding share of the extracted sulfur.

The sulfur price continually climbed starting in the second half of 2014 for the first time since the middle of 2012. The price driver was the global fertilizer industry which expanded in 2014. The price of carbon disulfide showed a sideward movement in 2014.

## Energy

The Energy business area is responsible for ensuring the optimal availability of electricity, process water, steam and cooling energy to all global production sites of the Lenzing Group. The prudent use of energy has a long tradition in the Lenzing Group for both economic and ecological reasons. Due to the fact that pulp and fiber production are extremely energy-intensive processes, the Energy business area plays a very important role with respect to optimizing costs and ensuring sufficient energy production.

In the year 2014, the European electricity market was characterized by declining spot and forward market prices. In some cases there were considerable price reductions in spot prices for natural gas in Europe during the year under review as a result of the warm winter months in 2013/14. The lion's share of the energy required by the Lenzing Group is procured on the basis of base contract deliveries, which is why the company is largely unaffected by developments on spot markets.

The energy production facilities of the Lenzing Group operated normally for the most part in 2014, with only short downtimes.

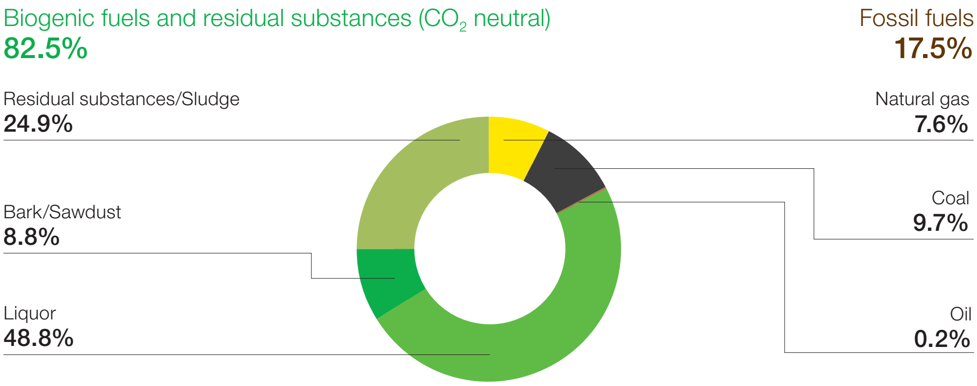
### Lenzing, Upper Austria

Projects designed to further improve the energy supply at the Lenzing site were continuously implemented in 2014. The coming on stream of the new TENCEL® production plant led to a massive rise of energy consumption. However, these additional expenses could be kept below planned levels thanks to the efficient deployment of energy and the increased use of residual materials and solid fuels (coal). The installation of a new steam turbine designed to safeguard the site's own electricity generation capabilities was successfully concluded during the year under review.

# MANAGEMENT REPORT 2014

### Fuel mix at the Lenzing Site*

Annual fuel input (2014): 13,636,150 GJ




*) incl. RVL

## Heiligenkreuz, Burgenland

In 2014, the Heiligenkreuz site successfully launched the participation of its two gas turbines in the electricity balancing market in cooperation with an Austrian utility company. The energy plant in Heiligenkreuz is the first industrial facility taking part in the Austrian secondary energy balancing market. The facility not only makes a contribution to the stability of the Austrian electricity network, but enabled Lenzing to generate additional income.

## Paskov, Czech Republic

New energy equipment at the Paskov site was already put into operation in 2013. This served as the basis for more efficient plant operations during the year under review, keeping electricity generation at a high level. For example, the consumption of natural gas in the soda liquor boiler was cut in half thanks to the implementation of optimization measures.

## Purwakarta, Indonesia

In 2014 electricity prices were significantly increased at the Purwakarta site in several stages. The underlying reason for the price hikes was the reduction in subsidies for the state-affiliated utility company. Measures were initiated to raise the share of own power generation and thus counteract the higher electricity prices. Further optimization measures are planned for the 2015 financial year.

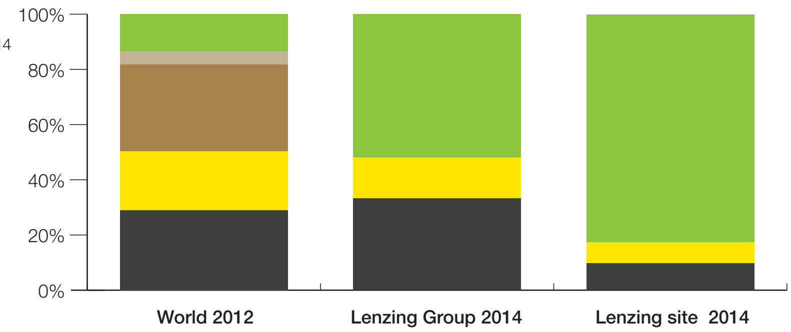
### Nanjing, China

Adaptation work was successfully carried out on a steam turbine at the Nanjing site during the year under review, increasing the level of self-sufficiency for electricity generation.

## Comparison of energy sources

**Global, Lenzing Group and Lenzing Site***

**Sources:**
World Energy Outlook 2014
Lenzing AG




| | World 2012 | Lenzing Group 2014 | Lenzing site 2014 |
|---|---|---|---|
| Biogenic | 13.5% | 51.8% | 82.5% |
| Nuclear | 4.8% | 0.0% | 0.0% |
| Oil | 31.4% | 0.1% | 0.1% |
| Gas | 21.3% | 14.9% | 7.6% |
| Coal | 29.0% | 33.2% | 9.7% |

*) incl. RVL

## Operational Excellence (OPEX): Lenzing expands its technological leadership

The Lenzing Group launched a Group-wide program entitled "Operational Excellence" (OPEX) in 2014 to ensure the ongoing optimization of internal operating processes. The objective of the program is to transform the company into a sustainable self-learning and optimizing company embedding all employees in the program. All production areas and interfaces in related departments are involved.

**The program is based on three pillars:**

- Working according to universally valid principles
- Application of "World Class Operations Management" (WCOM), a management tool to implement continuous improvement processes at all levels of the company
- Group-wide sharing of the best available technologies

# MANAGEMENT REPORT 2014

OPEX will not only create a close connection among the various sites in the future, but also serve as an interface to the technology departments. This is designed to ensure quick know-how transfer, taking into account the importance of protecting the proprietary production know-how within the Lenzing Group.

The OPEX organization consists of a global team coordinating the work of small but very efficient local OPEX units at the production sites. In turn, these units are in close contact with the local staff (from workers to the management) and local consultants.

The program was already launched at the Asian production sites in Nanjing, China and Purwakarta, Indonesia as well as in Heiligenkreuz, Austria and Grimsby, Great Britain. The initial results of these activities can already be demonstrated thanks to the generated savings and implemented quality improvements.

## Procurement

The supply of wood and pulp of a specified quality and quantity to all of the Group's pulp and fiber production sites is an important part of the Lenzing Group's core business. The Lenzing Group has developed a clearly-defined, Group-wide "Policy for wood and pulp" updated during the year under review, enabling Lenzing to also operate in accordance with sustainability principles when it comes to the procurement process.

The Lenzing Group's "Policy for wood and pulp" aims to ensure that wood and pulp are exclusively sourced from non-controversial sources. Moreover, suppliers participating in credible forest certification programs are preferred.

**Controversial sources include wood**

- which has been illegally harvested
- from forests of high conservation value, including ancient and endangered forests, and endangered species habitats
- from plantations established after 1994 through significant conversion of natural forests or converted to non-forest use
- from forests or plantations growing genetically modified trees
- which has been harvested in violation of traditional, community and/or civil rights
- which has been harvested in violation of any of the ILO Core Conventions as defined in the ILO Declaration on Fundamental Principles and Rights at Work.

Regular risk-assessments, audits and on-site visits as well as independent third-party certification of the sustainable forest management programs help to ensure compliance with the policy.

If Lenzing finds out that the origin of the wood or pulp is from controversial sources, the supplier is eliminated from the supply chain with a reasonable lead time.

Lenzing strives to establish long-term partnerships with its wood and pulp suppliers and seeks to do business personally and directly with forest owners and pulp mills.

### Measures within the context of excelLENZ

A variety of cost reduction and optimization measures were successfully implemented within the context of the excelLENZ cost savings program.

In particular, the exchange of local market information, the bundling of procurement volumes and monitoring of raw material correlations helped generate significant savings and make a substantial contribution to improving the earnings situation of the Lenzing Group.

## Outlook Segment Fibers

The OPEX program launched in 2014 will be intensified in 2015 and fully rolled out to all production sites within the Lenzing Group. In this way Lenzing will optimize its competence to systematically improve processes in order to optimally fulfill the growing demands of its customers.

# MANAGEMENT REPORT 2014

## Segment Lenzing Technik

The Segment Engineering mainly encompasses Lenzing Technik GmbH and its subsidiaries Lenzing Engineering & Technical Services (Nanjing) Co., Ltd. and LENO Electronics GmbH. Lenzing Technik offers services, implements projects and delivers equipment around the world in the fields of engineering and contracting, mechanical construction and industrial services as well as automation and mechatronics.

In the year 2014 Lenzing Technik suffered from a perceptible decline in revenue and earnings. This was due to the level of investment activity within the Lenzing Group, which was reduced to reflect the current market situation.

In 2014 the Segment Lenzing Technik generated a total revenue of EUR 90.8 mn, compared to EUR 125.1 mn in the previous year. Of this amount, approximately EUR 43.6 mn can be attributed to customers outside the Lenzing Group (2013: EUR 49.5 mn). EBITDA of the Segment Lenzing Technik in line with segment reporting amounted to EUR 3.1 mn, down from the prior-year level of EUR 9.1 mn. A total of 646 people (including trainees) were employed by the Segment Lenzing Technik as at December 31, 2014, lower than the comparable figure of 712 employees at the end of 2013. This reduction can be attributed to the decline in business volume. Moreover, the deployment of temporary staff was cut back more drastically in 2014.

### Engineering and Contracting

In the Engineering and Contracting business area, Lenzing Technik offers engineering and project services as well as mechanical and special machine construction for industrial customers. The business area encompasses the fields of viscose and fiber technology, environmental technology, pulp technology as well as filtration and separation technology.

The Pulp Technology division carries out consulting and engineering projects for the pulp industry on a global basis and implements projects for the Group's own pulp plants in Lenzing and Paskov.

The Viscose and Fiber Technology business area designs and builds the Lenzing Group's fiber production plants, and thus makes an important contribution to safeguarding the innovation and market leadership enjoyed by the Lenzing Group.

The Environmental Technology product group focuses on various technologies designed to reduce and eliminate waste gas emissions and wastewater in industrial and municipal applications.

The Filtration and Separation Technology division was able to further consolidate its strong global market position in the year under review, and successfully expanded its worldwide sales network. New applications for the products in this area, for example by the sugar industry, offer attractive future potential to expand the business.

The Engineering and Contracting business area reported a decline in business due to the lack of Group projects in 2014. However, Lenzing Technik succeeded in acquiring larger projects from external customers and slightly expanding its business on the external market. However, it was not able to fully compensate for the reduced investment activity on the part of the Lenzing Group.

## Mechanical Construction and Industrial Services

The Mechanical Construction and Industrial Services business area of the Segment Lenzing Technik is positioned as a contract manufacturer for sophisticated applications. In the 2014 financial year, the sales focus was on growing the business with external customers. The mechanical construction segment and, in particular, the field of industrial services profited from the strong demand on the part of external customers. Within the Lenzing Group, this business area made a major contribution to the successful construction and completion of the new TENCEL® fiber production plant at the Lenzing site.

In spite of a difficult market environment, the Sheet Metal Technology division came close to maintaining its external market position. The decrease in internal business was also the consequence of reduced investment activity at the Lenzing site.

## Automation and Mechatronics

In its Automation and Mechatronics business area, Lenzing Technik is positioned as the specialist for producer-independent automation solutions for the processing and manufacturing industry as well as the assembly of mechatronics devices and production of electronic components.

Sales with external customers in the process automation segment rose in 2014, and earnings could be significantly improved once again. On balance, revenue declined due to the reduced investments made by the Lenzing Group.

## Outlook Lenzing Technik

The focus of the Segment Lenzing Technik in the current 2015 financial year is on optimizing the earnings side of its business with external customers. The volume of business generated within the Lenzing Group will further decline as a result of the ongoing cost reduction program. Innovative products and solutions as well as intensified sales activities targeting external customers should partly offset the drop in incoming orders from the Lenzing Group.

**Reorganization of technical units**

In March 2015, the Supervisory Board approved the realignment of the technical functions of Lenzing AG and the repositioning of the subsidiary Lenzing Technik originally announced in November 2014. This is designed to adapt internal structures to the decline in investment activity on the part of the Lenzing Group and the external market.

In the future, the new Technical Services unit of the Lenzing Group will encompass four departments: Central Fiber Maintenance including planning and workshops, Global Automation, Global Engineering and Lenzing Technik GmbH. Lenzing Technik will be managed in a market-oriented manner within Technical Services, and will focus on Production & Industrial Services, Filtration & Separation and Pulp Engineering. The Management Board was authorized by the Supervisory Board to explore potentially new ownership structures for all other technical units which do not belong to Lenzing Technik's core business.

Lenzing is striving to generate further cost savings and productivity increases of about 15% on the basis of all these measures.

## Risk Report

### Current risk environment

Refer to section *Global fiber market* for a more detailed analysis of the latest developments on the world fiber market and the related risks for the Lenzing Group. Measures designed to reduce substitution risks for Lenzing are presented in section *Market/Substitution risk*.

During the period under review, pulp selling prices moved downwards again to a price level of about 840 USD per ton. This development diminished the competitive advantages of pulp integration and long-term supply contracts concluded by Lenzing (the level of self-sufficiency for pulp including long-term supply contracts is about 90%). The pulp supply for Lenzing's fiber production facilities is considered to be well secured for the year 2015. Expected import duties in China could negatively impact the cost situation of the Nanjing (China) production plant.

Raw material prices for chemicals and energy further declined slightly in 2014 due to the cyclically weak demand. Risks relating to a sharp increase in prices are not anticipated in the short term. In spite of the very low oil price, no significant cost reductions were achieved in the energy segment for 2015. Rising electricity prices in Indonesia as a consequence of the abolishment of state subsidies could lead to higher prices for caustic soda.

In terms of foreign currencies, Lenzing is profiting from a rise in the value of the dollar compared to the euro. In contrast, a further weakening of the Czech koruna could have a negative effect. Liquidity risks in 2015 are considered to be low, due to cutbacks in Lenzing's investment activity, amongst other reasons.

Operational risks as well as environmental damage and product liability risks continue to be potential causes of extensive damage to the Group and are thus classified as high risk factors. There were no significant incidents of damage in the 2014 financial year.

All major large projects including the new large-scale TENCEL® fiber production plant at the Lenzing site were completed on schedule during the year under review.

## Risk management

The Management Board of Lenzing AG and the corporate centers assigned to it carry out extensive coordination and controlling operations in collaboration with the heads of these departments. This is done within the framework of a comprehensive integrated internal control system covering all sites. In 2014 Lenzing established a functional organizational structure, in particular to be better positioned in the future to master the challenge of growing competition in Asia. The timely identification, evaluation and response to strategic and operational risks are essential components of the management activities. A unified, Group-wide reporting system functioning on a monthly basis and ongoing monitoring of strategic and operational plans comprise the basis of this approach.

Lenzing also operates a Group-wide risk management system which is responsible for the central coordination and monitoring of risk management processes throughout the Group. The central risk management team identifies and analyzes the main risks in cooperation with the operating units and directly conveys its findings to the Management Board and the top management. This includes anticipatory analyses of potential events or near-misses as well. Another task is to actively work to mitigate risks and to implement appropriate countermeasures in cooperation with the affected business entities, or to purchase additional external coverage on the insurance market as required.

## Risk management strategy

As part of its risk management strategy, Lenzing pursues a four-step approach in dealing with risks:

### Risk analysis (pursuant to the COSO®[11] framework)

Central risk management regularly conducts risk assessments at all of Lenzing's production sites. In this case, the risks are evaluated according to the likelihood of occurrence and financial impact pursuant to the international COSO® standards. In this regard the financial impact of potential damage to EBITDA is taken into account.

### Risk mitigation

An attempt is made to minimize, avoid or intentionally accept risks in certain cases on the basis of appropriate measures, depending on the potential impact of the identified risk.

[11] The Committee of Sponsoring Organizations of the Treadway Commission

### Determining responsibility

The assignment of responsibility for dealing with a particular risk is carried out on the basis of the existing organization.

### Risk monitoring and control

During the year under review Deloitte Austria was contracted for the third time to evaluate the effectiveness of Lenzing AG's risk management system within the framework of an audit in accordance with Rule 83 of the Austrian Corporate Governance Code. The corresponding confirmation is available on the Website of Lenzing AG at **http://www.lenzing.com/nc/konzern/investor-center/corporate-governance.html**.

Management holds regular meetings with the risk management team to discuss the development of the respective risk categories. The main risks are evaluated every six months and the findings are integrated in the reporting process.

In addition to fulfilling legal requirements, the main objective of the Group-wide risk management system is to increase the overall awareness of risk and to integrate subsequent findings into everyday business operations and strategic corporate development. The risk management system only presents major risks which are not included in regular financial accounting (e.g. statement of financial position, income statement).

Strategic market risks are assessed on the basis of market reports and internal market analyses. The risks are evaluated jointly with the internal market research department at monthly sales meetings. On balance, Lenzing's risk management identified a total of 29 risks and bundled them in five main areas, as described below.

## Market environment risks

### Market/Substitution risk

The globally operating Lenzing Group is exposed to a multitude of general macroeconomic risks. Price and volume developments for textile fibers are cyclically dependent for textile fibers and to a lesser extent for nonwoven fibers. In turn, this is related to economic conditions on both a global and regional basis. Lenzing fibers compete with cotton and synthetics on some markets. Their price development thus affects Lenzing's fiber sales revenues and volumes.

A huge surplus of cotton inventories and excess production capacities for viscose fibers still prevail on the global fiber market. As a consequence, strong price pressure is expected to continue impacting the entire fiber industry in 2015.

Lenzing counteracts this risk by its high share of specialty fibers in its global product portfolio. This share was increased on the basis of the further expansion of TENCEL® fiber production. High-quality standards combined with value-added services in the standard viscose fiber business are also designed to safeguard Lenzing's market leadership.

In addition, Lenzing relies on a strong international market presence, especially in Asia, combined with a top-notch regional customer service and support network as well as a high level of customer-oriented product diversification.

Substitution risk for cellulose fibers is counteracted due to Lenzing's long-term technological competence and a solid sales basis in its various market segments.

### Sales risk

Lenzing derives about half of its fiber revenue from a comparatively small number of major customers. Sales losses caused by major clients or the loss of one or more major customers combined with the failure to attract new customers constitute a risk which Lenzing counteracts by way of its global presence and the continuous broadening of its client base and sales segments. The probability of default on trade receivables has increased as a consequence of the difficult market environment.

### Innovation risk and competition risk

As the world's leading manufacturer of man-made cellulose fibers and the global technology leader, Lenzing is exposed to the risk of losing its position on the fiber market due to increasing competition or new technologies developed by competitors. The loss of its market position could especially take place if Lenzing is no longer capable of offering its products at competitive prices, if the products do not fulfill customer specifications or quality standards, or if its customer service fails to meet customer expectations.

Lenzing counteracts this risk by carrying out research and development activities surpassing the average in the man-made cellulose fiber industry as well as a high level of product innovation and active technology screening. The Lenzing Group and other producers of man-made cellulose fibers face the risk that acceptable or even superior alternative products may become available and obtainable at more favorable prices than man-made cellulose fibers. The Lenzing Group counteracts this risk by continually increasing its share of specialty products (viscose specialties, more Lenzing Modal® and TENCEL® fibers) in its global product portfolio.

# MANAGEMENT REPORT 2014

### Laws and regulations

Lenzing is confronted with different legal systems and regulations in its global markets. A change in laws or other regulations, such as import duties, more stringent environmental requirements etc. as well as a stricter interpretation of existing laws could lead to considerable additional costs or competitive disadvantages. Lenzing has its own Legal Management and Compliance Department which carries out corresponding consulting services and risk assessments pertaining to the legal situation.

## Operational risks

### Procurement risk (incl. pulp supply)

Lenzing purchases large amounts of raw materials (wood, pulp, chemicals) and energy in order to manufacture man-made cellulose fibers. Fiber production and its margins are subject to risks related to raw material availability and the price development of these resources, which can fluctuate to the detriment of the Lenzing Group. Lenzing counteracts these risks by carefully selecting its suppliers according to specified criteria such as price, reliability and quality, but also focuses on establishing longstanding, stable supplier-customer partnerships, in some cases with supply agreements over a period of several years. Lenzing has also established 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. As a consequence, Lenzing may not be able to change prices, quantities purchased or other contractual terms in the short term as a means of appropriately responding to changed economic conditions. This risk is aggravated by the fact that the lion's share of Group revenue is derived from short-term contractual relationships with customers.

Lenzing's pulp and energy strategy focuses on maintaining a maximum degree of self-sufficiency. The level of self-sufficiency for pulp including long-term delivery contracts is about 90%. Lenzing also compensates for price fluctuations by concluding long-term supply contracts, including gas forward delivery contracts.

### Operating risk and environmental risk (incl. fire damage and natural catastrophes)

The production of man-made cellulose fibers requires a complex series of chemical and physical processes which entail certain environmental risks. These risks are well managed thanks to special, proactive and sustainable environmental management efforts, closed production cycles and the continuous monitoring of emissions on the basis of state-of-the-art production and environmental technologies. For decades the Lenzing Group has operated production facilities for industrial purposes at several locations. For this reason, risks related to environmental damage caused in the past cannot be fully excluded. Although the Lenzing Group sets high internal technological and safety standards in the construction, operation and maintenance of its production sites, the risk of breakdowns, disruptions and accidents cannot be fully excluded. In particular, such difficulties can be caused by external factors over which the Lenzing Group has no control. There are no direct means of safeguarding against certain natural dangers (e.g. cyclones, earthquakes, floods). In addition, there is the risk of personal injury, material and environmental damage which could result in considerable claims for damages and even criminal liability. The Lenzing Group has concentrated its production operations at just a small number of sites. Any disruption at one of these facilities, for example in Lenzing, Austria or in Indonesia, the two sites with the largest production capacities, would impact 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. In this regard, customers could potentially suffer from damage attributable to the delivery of a defective product from Lenzing or one of its subsidiaries. Lenzing is subject to the prevailing local laws in the countries in which it delivers the products, and is exposed to a high level of liability risk in particular in the USA. Lenzing counteracts this risk with a special department exclusively focusing on problems experienced by customers in processing Lenzing products and on dealing with complaints. Liability claims caused by Lenzing are insured within the context of a separate liability insurance program.

## Finance risks

### Exchange rate risk

The international business relationships of the subsidiaries of the Lenzing Group expose it to currency risks. In particular, transaction and exchange rate risks exist with respect to the USD, CNY, JPY and CZK (refer to section *Use of financial instruments*). This risk is reduced by a hedging strategy authorized by the Management Board. The objective is to limit existing currency risks arising from already concluded or planned sales transactions. These derivatives are recognized as hedging instruments in hedge accounting on the basis of hedged transactions.

### Counterparty risk

The Lenzing Group concludes transactions with a variety of banks to invest its liquid funds. The risk of a counterparty defaulting and the related negative effects are counteracted by an annually accepted investment limit for each counterparty (counterparty risk limit) which is specified by the Management Board. The investment limits set for each counterparty are based on its probability of default. The limits are determined by taking the respective ratings into account as well as the publicized "credit default swap" spreads and can be correspondingly adjusted during the year if changes in creditworthiness occur.

The potential default on accounts receivable is counteracted by a strict receivables management and covered by a global credit insurance policy.

# MANAGEMENT REPORT 2014

### Tax risk

Lenzing's production facilities are subject to local tax regulations in the respective countries, and are required to pay both income taxes as well as other taxes. Changes in tax laws or differing interpretations of prevailing regulations could lead to subsequent tax liabilities.

### Compliance

The ongoing tightening of international codes of conduct and legal regulations increase the demands imposed upon Lenzing to comply with and monitor compliance to these regulations. Insufficient controls in business processes or a lack of adequate documentation could potentially result in violations of relevant statutory provisions. Lenzing addresses this risk through its global compliance organization and a code of conduct which is binding throughout the Group.

## Personnel risks

### Succession planning/Qualified employees

Personnel risks may arise as a consequence of the fluctuation of employees serving in key positions, as well as recruiting of new staff at all global sites. Lenzing operates a Corporate Center Global Human Resources which continuously coordinates personnel planning with the respective sites, and centrally manages and monitors all personnel-related issues. This includes global management and training programs for potential executives which are organized by the Corporate Center Global Human Resources.

## Other risks

### Risks relating to the expansion of production capacity

The new jumbo TENCEL® production plant at the Lenzing site was successfully put into operation during the year under review. The Lenzing Group could be confronted with the risk that customer demand may prove to be insufficient in order to enable the full utilization of the increased production capacities. Furthermore, the Lenzing Group derives large quantities of pulp from its two own pulp production sites. Developing and maintaining operations at a production site in the man-made cellulose fiber industry require considerable investments.

## Use of financial instruments

Clearly-defined, written guidelines exist for the treatment of financial risks, and are being continually monitored and evaluated by the Management Board and the Corporate Center Treasury. Lenzing AG exclusively makes use of foreign currency forward contracts to protect itself against exchange rate risks associated with business operations, mainly resulting from sales in USD, CNY, JPY and CZK. The objective of exchange rate risk management is to protect payment flows from business operations against adverse exchange rate fluctuations. Hedging activity as well as the correlation between risk and hedging instruments are continuously monitored and reported. Corresponding hedging transactions ensure that exchange rate changes do not influence payment flows. In principle currency translation risks are not hedged but are monitored on an ongoing basis. There is an active exchange of information between management and the treasury.

The risk of loss with regard to these derivative financial instruments is monitored on a regular basis and is rated as relatively small, taking into account the good creditworthiness of the contractual partners.

Allowances are made for the identifiable risk of loss related to primary financial instruments, such as loans, securities, receivables and cash held at banks. The carrying amounts of these financial instruments recognized in the consolidated statement of financial position represent the maximum risk entailed. In addition, Lenzing AG has accepted liability for other companies. The risk of subsidiary liability is considered to be small as the concerned companies can be expected to meet their payment obligations.

The risk of changes in the market value of primary financial instruments and their derivatives is rated as relatively small. No increased volatility until maturity is expected for short-term financial instruments. 47.06% of the company's long-term liabilities are linked to variable interest rates.

Liquidity risk, namely the risk of insufficient funds to meet obligations resulting from primary financial instruments and their derivatives, does not exist. The derivative financial instruments are exclusively employed for hedging. The resulting obligations are accordingly covered by the hedged business operations. Obligations resulting from primary financial instruments are covered by available liquid funds and if needed by internal financing.

Cash flow risks related to financial instruments arise from fluctuations in their respective payment flows. These cash flow risks are essentially limited to variable interest rate liabilities.

### Financing risk

The Lenzing Group requires financial resources to implement its business plan and strategy. Tighter credit markets and the resulting difficulty in obtaining credit could adversely affect the availability, terms and conditions and costs of procuring capital. In addition, declining demand or a fall in selling prices could also negatively impact business operations and thus the financial situation and earnings of the Lenzing Group.

## Report on Essential Elements of the Internal Control System (Section 243a para 2 of the Austrian Stock Corporation Act)

The internal control system of the Lenzing Group is designed to ensure the reliability of financial reporting, compliance with legal regulations and internal guidelines and the presentation of off-balance sheet and income statement risks.

The organizational structure and process organization of the Lenzing Group comprise the main basis for the overall control environment and the internal control system of the company.

With respect to the organizational structure, competencies and responsibilities are clearly assigned to the different management levels and hierarchies of the Group, encompassing its Austrian sites and all international subsidiaries. Essential corporate functions are centralized in corporate centers, which reflect the Lenzing Group's global market presence as well as its decentralized business and site organization. The respective management is responsible for coordinating and monitoring business operations on a national level.

The process organization of the company is characterized by a clearly-defined and comprehensive set of guidelines which provide an appropriate basis for a strong control environment and control system. The "Lenzing Group Mandates" define essential Group-wide approval processes and competencies. The management of the respective business unit or corporate center is responsible for monitoring compliance with the respective regulations and controls.

### Financial reporting

The Corporate Center Global Finance is centrally responsible for financial reporting, thus ensuring a clearly-defined structure and designated responsibilities for this area. A comprehensive set of regulations and guidelines detailing the way control functions are exercised has been developed and implemented.

Lenzing has an internal control and risk management system for the accounting process aiming to ensure the uniform implementation of legal standards, generally accepted accounting principles, the accounting principles contained in the Austrian Commercial Code and for Group accounting purposes, the accounting principles laid out in the International Financial Reporting Standards (IFRS) as well as internal Group accounting guidelines, especially the accounting handbook and timetable applicable throughout the entire Group.

The accounting-related internal control system is designed to ensure the timely, uniform and accurate recording of information on all business processes and transactions in order to make reliable data and reports available with respect to the financial position and financial performance of the Lenzing Group.

The subsidiaries included in the consolidated financial statements of the Lenzing Group prepare individual financial statements and IFRS financial statements on a company level in a timely manner. They are responsible for ensuring the decentralized implementation of existing rules with the support of the Corporate Consolidation Department. The consolidated financial statements are prepared on the basis of the data supplied by the Group companies. Corporate Consolidation is responsible for consolidation entries, reconciliations and monitoring compliance with reporting guidelines with respect to contents and deadlines.

Due to its direct access to the company's assets, the Corporate Center Treasury and Payment is considered to be a highly sensitive area. Correspondingly, comprehensive regulations and instructions have been developed to take account of the enhanced need for security in the relevant processes.

These clear guidelines stipulate the strict application of the four-eyes principle for implementing transactions, as well as the close cooperation and ongoing reporting to the central Treasury and Payment department. The Corporate Center Internal Audit is responsible for monitoring the use of and compliance with controls.

A global Tax Management department is in charge of handling tax issues in the Group.

## Compliance with legal regulations and internal guidelines

Lenzing's Corporate Center Legal Management & Group Compliance is responsible for dealing with legal issues. This centralized function is in charge of handling all legal issues within the Lenzing Group and in particular for those matters which go beyond standard business processes.

The Corporate Center Legal Management & Group Compliance is responsible for the further development of a compliance management system (CMS) for processes regulating compliance with statutory law and internal guidelines or preventing violations of the law or improper behavior. The Corporate Center Legal Management & Group Compliance reports directly to the Chief Executive Officer. The compliance management system is responsible for the following tasks: continually identifying compliance-relevant risks, taking measures to minimize risks, developing compliance-relevant guidelines, training employees, providing assistance on compliance issues, dealing with and correcting cases of improper behavior and preparing regular reports to the Management Board and Supervisory Board or to the Audit Committee.

The Lenzing Group has declared its commitment to adhering to the rules contained in the Austrian Code of Corporate Governance (ACCG), and prepares a corresponding public Corporate Governance Report within the context of Lenzing's Annual Report. The Corporate Governance Report requires the participation of the Supervisory Board, which for this purpose delegates responsibility to the Audit Committee for monitoring compliance with the obligations stipulated in the report.

# MANAGEMENT REPORT 2014

The Corporate Center Internal Audit is independent of organizational units and business processes and reports directly to the Chief Executive Officer. Internal Audit evaluates whether the deployed resources are used legally, sparingly, economically and properly in the spirit of sustainable development. Internal Audit orients its activities to the international standards laid down 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.

### Recognition of off-balance sheet and income statement risks

The Corporate Center Risk Management identifies and presents risks outside of the statement of financial position and income statement by preparing a semi-annual Risk Report. The main risks contained in the Risk Report are also mentioned in the Annual Report. The Risk Report is prepared according to the internationally recognized standards of the Committee of Sponsoring Organizations of the Treadway Commission (COSO®).

## Balance Sheet Structure and Liquidity

The Lenzing Group meets its payment obligations in a timely manner. The companies boast a solid liquidity and equity basis as well as a sound balance sheet structure. Moreover, sufficient lines of credit which can be used for financing at any time have already been granted by various banks.

**On balance, the Management Board of Lenzing AG in its capacity as the management of the Lenzing Group is not aware of any risks as at the reporting date of December 31, 2014 that could endanger the continued existence of the company in the 2015 financial year.**

## Research and Development

The claim of being the innovation leader in the industry is a key aspect of Lenzing's identity. Lenzing has been a global technological pioneer for ecologically responsible and profitable cellulose fiber production for decades.

Many innovations are developed in collaboration with customers but also with partners from external research facilities and university institutes. The Lenzing Group currently has about 1,400 patent applications and approved patents belonging to 248 patent families in 63 countries. The majority pertain to the lyocell fiber TENCEL® and involve both technology and application patents.

An internationally recognized team of about 160 experts is conducting research on the latest advances in the field of fibers at the facility in Lenzing. In the 2014 financial year, research and development expenditures (calculated according to the Frascati method) amounted to

EUR 20.6 mn (2013: EUR 31.1 mn). This decline is due to efficiency enhancement measures, reduced investments and a stronger focus on value aspects. In this way, savings could be realized without reducing the performance of the R&D team. Investments in R&D comprise a peak value compared with the rest of the industry, both as a percentage of revenue and in absolute terms. Lenzing has set itself the goal of investing about 1.5% of its revenue in research and development in order to retain its innovation leadership in the man-made cellulose fiber industry in the long term.

## Realignment of R&D as part of the reorganization

The development departments of the business units were bundled to create a central research unit within the context of the reorganization of the Lenzing Group. The new Innovation and Strategic R&D department reports directly to the Board and is divided into two large groups, Process Technology & Chemistry and Product R&D. Moreover, the entire R&D infrastructure (pilot facilities, technical equipment and laboratories) are now encompassed in a separate group. Research activities are complemented by a newly created Project Management Office.

This office is also responsible for the implementation and support of the newly created innovation processes. At the beginning there is an idea which the employees enter into the system. This idea is evaluated (taking technological and economic aspects into account) and a feasibility phase (limited in scope) is launched if applicable. On the basis of the findings, a decision is made if a “full-scale” project is initiated or not, also considering the available resources. The newly-established Project Management Office has a tool at its disposal to prioritize projects (on the basis of pre-defined criteria). In the course of the project, the particular departments with responsibility for translating the findings into reality (Production, Business Development, Sales etc.) are integrated in the project to ensure an efficient transfer and implementation.

Research projects can now be very efficiently processed thanks to the new project management system designed to support project managers in implementing ongoing projects and the bundling of research competencies in one department. In addition, interfaces to other departments were defined to integrate them in the development work and promote an exchange of know-how.

## Partnerships

Alongside this internal cooperation, Lenzing has established a series of partnerships with external partners. This collaboration involves companies as well as research institutes and universities. A long-term cooperation has existed with many partners. A significant share of R&D is carried out within the context of projects funded by the public sector (for example the Austrian Research Promotion Agency FFG or EU programs). The funds granted comprise an important pillar of Lenzing AG’s research work.

# MANAGEMENT REPORT 2014

## Priorities in the year under review

One focal point in 2014 was research carried out as the basis for the putting into operation of the new 67kt TENCEL® fiber production plant at the Lenzing site. The successful development of this plant is ultimately based on decades of further developing the lyocell technology by Lenzing's R&D team, which also provided support for the start-up of the new facility.

In addition, Lenzing's R&D also demonstrated its competence by upgrading pulp production at the Paskov plant. In addition to an ongoing qualitative improvement, a further focus was on optimizing production cycles and ensuring closed loop manufacturing.

In terms of product development, the greater wearing comfort of hygiene products made of TENCEL® fibers (instead of synthetic fibers) was demonstrated by a study on test persons. This study had to be carefully planned, support provided in the implementation phase and subsequently evaluated in order to arrive at statistically significant results.

Another highlight was the market launch of the new flame-resistant fiber TENCEL® R100. Accordingly, an inherently flame-resistant fiber on the basis of the TENCEL® technology is commercially available for the first time.

# Environment and Sustainability

## Sustainability in the Lenzing Group

The renewable raw material wood serves as the starting point for the Lenzing Group's products, namely man-made cellulose fibers. The principles of sustainable business development are embedded at Lenzing due to this raw material basis, and are thus consistently practiced on all levels throughout the entire Lenzing Group.

The Lenzing Group has been committed to the fundamental principles of sustainable development for many years. For Lenzing, operating profitably is equally important to achieving a social balance and safeguarding the ecological basis of life. The cornerstones of sustainable business development are the long-term, competitive creation of value in production as well as the most prudent use of resources.

### The sustainability model of the Lenzing Group


Many consumers and thus partners along the textile value chain and the brands and retail sector are increasingly interested in knowing exactly what materials comprise the products they buy. They want to be able to use the products with a good conscience, and demand high standards. For this reason, sustainability is an important issue, and of increasing importance for its further corporate development.

The steadily growing importance of the issue of sustainability is reflected in the setting up of a new Corporate Center called "Corporate Sustainability", which reports directly to the Management Board (Chief Commercial Officer). The internal sustainability network was further expanded and developed in the 2014 financial year. It provides the Corporate Center Corporate Sustainability with a great deal of information spanning all corporate functions. The internal network partners come from various areas which are of relevance to the issue of sustainability, from Production, Safety, Health & Environment to Human Resources, Corporate Communications, the various

# MANAGEMENT REPORT 2014

product managers and team members responsible for innovation in the Lenzing Group.

In order to more deeply embed sustainability in Lenzing and enable a broader-based discussion, the first global Sustainability Day of the Lenzing Group was held in October 2014, attended by 80 top Lenzing managers and international experts.

First Lenzing Sustainability Day: speakers from industry, global trade, the academic and financial worlds and the non-profit organization “Plant for the Planet“ discussed the wide-ranging significance of sustainability with Lenzing’s top management.


Peter Untersperger, CEO of Lenzing AG, supports the action-oriented slogan of Plant for the Planet: “Stop talking, start planting!”

## Responsibility for the people

The Lenzing Group operates globally but embodies values which are deeply rooted in European culture and practices them at all its global sites. Principles such as tolerance, openness and respect for all people are applied equally by Lenzing regardless of the particular region in which the company operates. Social awareness and commitment has continuously been an integrated aspect of its business activities. Lenzing has proven this for decades in its role as an Austrian globalization pioneer on Asian markets. It is an integral part of the company's identity and philosophy to consistently pursue a dialogue with employees in a fair and just manner even in difficult times.

The recent difficult developments on the global fiber market and the related necessary massive cost savings program posed particularly serious challenges to the Lenzing Group in the 2014 financial year. One-third of the cost reductions clearly surpassing the level of EUR 100 mn were achieved by cutting personnel expenses.

The Human Resources team of the Lenzing Group accepted its responsibility by developing a concept enabling the different sites to take customized approaches. A large number of individual solutions were developed by taking account of the respective cultural background. Reductions in the number of employees could be carried out without resorting to legal conflicts. In Lenzing (Upper Austria), the largest production facility, the redundancy program implemented by the company along with a series of individually adapted measures and an intensive cooperation with the Works Council helped the company avoid any layoffs. In this way, the job cuts at the Lenzing site in Upper Austria did not have any sustainably negative effects on the employment figures and social situation in the Vöcklabruck area.

## Responsibility for the environment

Each and every day Lenzing fibers make an important contribution to making life better and more comfortable for many people, whether they are used for clothing, home textiles, in healthcare or in the hygiene and body care segments. Lenzing products are often an indispensable part of our modern industrial society. Lenzing's objective is to manufacture these consumer goods with a minimal environmental impact. In the past the viscose fiber industry was considered to pollute the environment and operated in a resource-intensive manner. For more than a quarter of a century, Lenzing has set international standards for the environmentally-compatible production of man-made cellulose fibers by making steady process improvements, closing its chemical cycles and introducing state-of-the-art exhaust air and wastewater treatment systems. In addition, Lenzing pursues a strict wood and pulp policy to ensure that no wood from controversial sources is used to manufacture pulp and fibers.

By defining valid Group-wide environment standards, Lenzing has voluntarily committed itself to complying with specified environmental criteria. The basis for Lenzing's commitment is its orientation to strict benchmarks stipulated in various international standards such as the EU Ecolabel.

# **MANAGEMENT REPORT** 2014

**EU Ecolabel**

In 2002, Lenzing became the first fiber producer in the world to be awarded the EU Ecolabel. The EU Ecolabel has been an important benchmark for the Lenzing Group ever since due to the strict criteria for awarding it and the high level of public recognition it enjoys.

New and even stricter criteria for textile products were defined in June 2014. The Lenzing Group is striving to be granted re-certification in the year 2015.

**ECOCERT for TENCEL® fibers from Heiligenkreuz and Mobile**

ECOCERT's Ecological & Recycled Textile Standard (ERTS) stands for environmentally compatible production processes and high social standards in manufacturing. Products marked with the ECOCERT logo show that they consistently fulfill these strict requirements, from the raw materials, production process, distribution and sales to the end of the product life cycle.

This ECOCERT standard offers Lenzing customers the possibility to stand out even more from their competitors, especially in the field of hygiene products such as cosmetic wipes.

At the **Lenzing site** a new wastewater purification system designed particularly for the new TENCEL® fiber plant was put into operation in March 2014. The facility was successfully ramped up in compliance with regulatory requirements. It contains a buffer tank, a specific biology for the generated wastewater with two sludge tanks and a secondary clarification tank. After treatment of the wastewater arising in the TENCEL® production process in the biological wastewater pre-treatment facility developed especially for the TENCEL® process, it is further purified in the biological central wastewater treatment plant owned by the Wasserreinhaltungsverband Lenzing. In this way the additional wastewater from the new TENCEL® fiber production facility can maintain the previously agreed-upon limits for the water discharged in the Ager River. The process exhaust air from TENCEL® fiber production is purified in a two-phase exhaust air scrubber system.

Energy efficiency was increased at the Lenzing site by putting a new turbine into operation.

A project to minimize odor emissions implemented by Reststoffverwertung Lenzing (RVL GmbH) was positively concluded during the year under review.

The accredited Lenzing Testing Laboratory for Ecological Analysis (UAL) once again demonstrated its high standards in laboratory services for wastewater and waste analysis and ecotoxicological tests. The annual environmental monitoring audit carried out by external experts on behalf of the accreditation body, the Federal Ministry of Science, Research and Economy was successfully concluded in January 2015.

Work was started on the expansion of the industrial wastewater facility at the **TENCEL® fiber production plant in Heiligenkreuz** (Burgenland, Austria). The project is scheduled to be completed in April/May 2015. Energy efficiency could be improved on the basis of modifications and improvements on the existing facility.

Chlorinated bleaching chemicals are no longer in use at the **Paskov pulp plant** (Czech Republic) since the middle of January 2014. The plant in Paskov now only supplies sustainable totally chlorine-free (TCF) pulp. Coal combustion was terminated at the beginning of the year, which led to a considerable improvement in the air quality thanks to the reduction of particulate matter emissions.

### Responsibility for the economy

With its successful implementation of the excelLENZ cost savings program, the Lenzing Group proved its ability to quickly and vigorously counteract market challenges. Respectable operating results could be achieved under the given, ongoing difficult market conditions thanks to the efforts of all employees. This success was made possible by the timely and effective reaction of the company accompanied by measures designed to secure Lenzing's long-term corporate success in the future.

Long-term thinking has always been part and parcel of Lenzing's corporate culture. Trustful and long-term mutually beneficial relationships characterize the partnerships Lenzing has built up with its customers, suppliers and other stakeholders.

These Lenzing principles were severely tested in the past challenging year. In the light of massive market upheavals and internal reorganization and cost savings measures, it was important for Lenzing to fairly and openly deal with employees affected by the job cuts and remain a reliable partner for customers. Despite the comprehensive internal reorganization, the company succeeded in increasing sales volumes, safeguarding its sales markets and opening up new ones.

In spite of the far-reaching cost savings measures, the innovation activities of the Lenzing Group remain unchanged, because they comprise the basis of the company's future. Research in the field of lyocell technology, alternative raw materials and recycling are issues which are given undivided attention in the spirit of ensuring the future viability of the company, the responsible use of raw materials and the sustainable production of fibers.

## Stakeholder dialogue

The international textile and nonwovens industry is faced with major challenges with respect to the sustainability of its products and production processes. In the globalized economy of today, this also means assuming responsibility along the entire value chain.

In order to shoulder this responsibility, the Lenzing Group in its role as an industry leader very closely orients its operations to customer requirements, and intensively works together with all partners along the entire value chain within the context of its push-pull market strategy. As a result, many fiber and product innovations are developed jointly with customers and partners from external research facilities and university institutes, and commercialized in close collaboration with the value chain.

# MANAGEMENT REPORT 2014

The textile and nonwovens industry is convinced that the ecological and social challenges along its global value chains can only be solved together and not by individual companies. For this reason, Lenzing is strongly involved in the development of global sustainability standards in cooperation with different interest groups representing industry, non-profit organizations and initiatives of the European Union. Within the context of activities carried out by the Sustainable Apparel Coalition (SAC) with the aim of creating a more sustainable textile industry, Lenzing is actively involved in the development of the global standard Higg Index 2.0 and in projects such as the development of recycling technologies for garments. At present some 140 of the leading retail chains, brand-name and textile companies accounting for about one-third of total global sales in the clothing industry have joined forces in the SAC to develop a global standard enabling an assessment of the entire production process, from the raw material to the finished garment. The objective is to realize the vision of an industry which does not cause any unnecessary environmental damage along its entire value chain, and whose activities have a positive impact on the people and communities involved.

As a leading company in the fields of pulp and man-made cellulose fibers, Lenzing assumes a particular responsibility in procuring wood and pulp which comprise the basis for Lenzing products. Joint work is being done on a process entitled "Viscose Solution's Pathway" in cooperation with the non-profit Canadian organization Canopy and a working group called "Fashion and Textile Leaders for Forest Conservation" consisting of leading brands and retailers. This is designed to ensure that no apparel made of man-made cellulose fibers will be sold in their shops in the future if the entire value chain is not transparent and the fibers are potentially produced from wood or pulp from endangered forests or critical suppliers.

## Ratings

### VÖNIX – Sustainability index of the Vienna Stock Exchange

Since the year 2005, about 60 publicly traded Austrian companies are evaluated on the basis of about 100 environmental and social criteria. The best companies are accepted for listing in the VÖNIX index (VBV Austrian Sustainability Index) for a period of one year. Lenzing once again achieved very good results in the evaluation carried out in 2014, when it was accepted for listing in this index for the ninth straight year.

### Oekom Research assessment

The Lenzing Group was given a C+ rating by oekom research. According to this assessment, the company is classified as "Prime" according to the rating method of this rating agency. This means that Lenzing shares qualify as an investment from an ecological and social point of view. Companies classified as "Prime" are entitled to display the oekom Prime logo. This logo represents a seal of quality attesting to the social and ecological achievements of the company.

## Certifications

Certifications provide important information about the status of an organization with respect to its systems and products. Accordingly, business partners and customers can be sure that the corresponding quality, environmental and safety standards are adhered to.

### Certification status in the Lenzing Group

| | ISO 9001 | ISO 14001 | OHSAS 18001 |
|---|---|---|---|
| Lenzing (Austria) | ✔ | ✔ | ✔ |
| Heiligenkreuz (Austria) | ✔ | ✔ | ✔ |
| Grimsby (UK) | ✔ | ✔ | ✔ |
| Mobile (USA) | ✔ | ✔ | ✔ |
| Purwakarta (Indonesia) | ✔ | ✔ | ✔ |
| Nanjing (China) | ✔ | ✔ | ✔ |
| Paskov (Czech Republic) | ✔ | ✔ | ✔ |

# MANAGEMENT REPORT 2014

## Human Resources

The most valuable asset of a performance-driven, competitive organization is its committed, motivated and highly qualified employees. The professional development of employees plays a key role in safeguarding the company's sustainable competitiveness, especially in times characterized by a challenging market environment and tougher competition.

With this in mind, the Lenzing Group promotes the ongoing enhancement of employee qualifications through a broad spectrum of global and regional personnel development offerings. A separate subsidiary, the Lenzing Training Center (Bildungszentrum Lenzing) organizes a large share of the continuing education and professional development measures at the Lenzing site whereas the Corporate Center Global Human Resources works together with the Global Learning & Development department to coordinate Lenzing's global human resources strategy.

### The excelLENZ project

A key focus of the work carried out by Human Resources in 2014 related to the excelLENZ cost savings program, which is explained in detail in section *Development of the Lenzing Group/ excelLENZ* cost savings program.

At the Lenzing site, revisions made to the existing salary agreement in consensus with the Lenzing Works Council changed the former terms and conditions for bonuses to create a much more earnings-oriented bonus payment. The new agreement took effect in 2015.

### Global further education and professional development

During the year under review the top priority of the Global Learning & Development department was the Group-wide further education and professional development of executives and future high potentials within the context of a talent management program.

In 2014, the newly-launched initiative "Top Management Time Out" offered members of the Management Board and top management the opportunity to jointly deal with current issues concerning vision, strategy, organizational efficiency and leadership in a moderated setting. These workshops took place three times, offering a platform for a mutual exchange of ideas and personal development with a high caliber group of participants. The events will be continued in 2015.

The new generation of the Lenzing Global Management Development Program - CU 2012, which stands for "Create & Unfold your Management Capabilities" - was successfully concluded in the spring of 2014. The focus of this top executive program was on Asia and global culture, with a new perspective put on strategy and leadership issues. This international executive learning program, whose five modules extend over a period of 17 months, brought forth 30 graduates from Europe and Asia in March 2014. CU 2012 made a valuable contribution to international cooperation and enabled Lenzing Group executives to even more professionally fulfill the tasks assigned to them.

However, employees at the top management levels were not the only ones whose qualifications were promoted. "Springboard" was the name of a comprehensive talent management program launched for middle management in June 2014. The Springboard initiative targets motivated employees who display a high level of performance in their current jobs and have the potential to work in more demanding management and specialist positions in the future. The two-year development program is based on an application process, which selected 15 "springboarders" from Europe, 13 from Asia and two from the USA in June 2014 to begin their professional development journey. Springboard boasts a specific learning architecture, which aims to intensify the practical experience of the participants as well as their behavioral repertoire, conceptual thinking and understanding of evidence-based management and leadership issues. Starting in the fall of 2014, the program was expanded to include a practice-oriented project and a group of senior managers in the role of mentors. The program will continue for another 16 months before ending in the spring of 2016. This program will also be renewed next year.

Talent management program „Springboard"

The program "Coaching Skills for Executives" launched two years ago continued to enjoy great popularity during the year under review. In 2014, additional executives completed the six-month program, so that the total number of graduates in Austria alone increased to 112. Two other groups consisting of 19 people began the program in the fall of 2014.

The activities carried out by Global Human Resources in Asia in 2014 were particularly successful. The foundation was laid for rolling out the coaching program in China and Indonesia on the basis of two pilot programs. At the same time, executives concluded the 18-month "Supportive Leadership Program" in 2014, which consists of six modules and equips executives with modern methods and approaches for coaching, conflict management and change management. Moreover, with more than 30 graduates in the meantime, the program serves as an excellent platform for the participants to apply what they learned on the basis of practical, real-life examples and in mentoring.

# MANAGEMENT REPORT 2014

A competence model provides the foundation for every type of human resources work. The Lenzing principles introduced in 2007 were the basis for revising the behavioral standards of the Lenzing Group. Starting in 2015, a new and expanded version will serve as an orientation framework for employees.

In 2014, important changes were made in order to roll out a more global process for performance and succession management. In the future, performance targets will not only be defined within the context of the performance review, but personnel development requirements will also be more visibly documented to enable more effective human resources development work to be carried out. Performance management in the Lenzing Group will be more precisely documented to ensure greater transparency in more structured succession planning and in the selection of high performers.

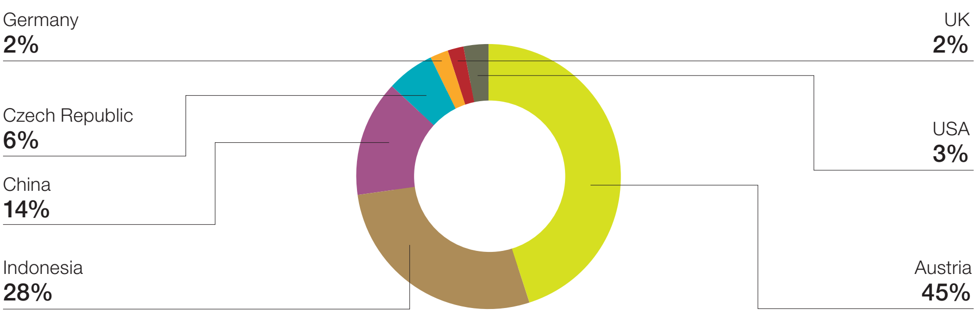
In addition, work is being done to more firmly embed a feedback culture in the company. The global rollout is planned for 2015.

At the reporting date of December 31, 2014, the total number of employees working for the Lenzing Group comprised 6,356 people around the world (December 31, 2013: 6,675), thereof 186 trainees. This 4.8% reduction of the Lenzing staff was the result of the excelLENZ program and is designed to more effectively meet future market requirements and to regain relative competitive strength.

A total of 2,739 employees[12] were working at the corporate headquarters in Lenzing, Austria at the reporting date of December 31, 2014, working for the companies Lenzing AG, Lenzing Technik GmbH, LENO Electronics GmbH and BZL – Bildungszentrum Lenzing GmbH (December 31, 2013: 2,796). Of these, 173 were trainees (December 31, 2013: 171). In addition, 13 trainees received vocational instruction and training at the Lenzing sites in Heiligenkreuz, Austria and Grimsby, Great Britain.

### Staff members by country

**Number of Lenzing Group employees as at December 31, 2014: 6,170***




*) Headcount excl. trainees and leased labor

12) Incl. trainees, excl. leased labor

## Occupational safety and health

The Corporate Center Global Safety, Health and Environment (SHE) is responsible for overseeing the Lenzing Group's efforts with respect to occupational safety and health as well as environmental protection issues on a Group level. During the 2014 financial year, the vision, mission and strategy of SHE were also updated in order to reflect the organizational reorientation of the Lenzing Group.

### Safety

During the year under review, the top priorities of Global SHE were the further improvement of fire safety, the issuing of handbooks on relevant safety issues and the training of employees and executives.

In order to increase fire safety at the Lenzing Group, fire protection audits were carried out in the past financial year. The fire protection systems as well as the firefighting and fire prevention capabilities were examined at the Nanjing, Purwakarta, Paskov and Heiligenkreuz plants and appropriate improvements were made if necessary. The Grimsby production site established a new position of "fire prevention officer".

Furthermore, an online permit procedure was implemented for defined dangerous activities at the Nanjing and Purwakarta sites. The launch was accompanied by extensive theoretical and practical training measures for the affected executives.

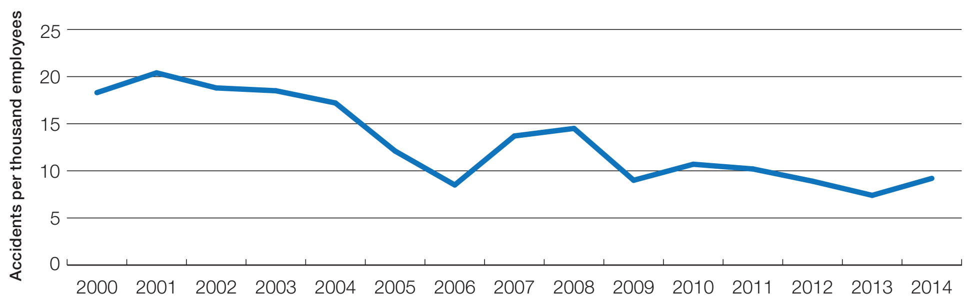
All Lenzing Group production facilities are certified according to OHSAS 18001 (refer to section *Environment and Sustainability/Certifications*).

Due to the higher accident rate in the 2014 financial year, Group management has already initiated appropriate countermeasures.

# MANAGEMENT REPORT 2014

## Development of accident rates

Lenzing Group




### Health

The Lenzing Group has established health care standards at all its sites such as regular health checks for all employees, a strict ban on alcohol and regularly held trainings in how to properly deal with chemicals. In addition, various health promotion programs are implemented at the production facilities of the Lenzing Group. The offering ranges from health recommendations, cost-free vaccinations and smoking cessation programs to balanced nutrition in the company canteens and sporting events.

The two-year health promotion program “BFG” at the Heiligenkreuz plant was successfully concluded during the year under review. New healthcare initiatives were launched at the Mobile and Purwakarta sites.

At the Mobile, Alabama plant in the USA, the existing health promotion efforts were expanded in 2014 to encompass the “iHealthy Wellness” healthcare program. This initiative focuses on prevention, and includes annual health checks, amongst other measures, aiming to identify existing health risks at an early stage and prevent potential risks from arising by promoting a healthier life style.

A core aspect of the program are quarterly seminars led by professional health coaches, calling attention to health problems which were frequently identified within the context of the previously implemented health check. The offering is rounded off by regular one-on-one meetings with the coaches as well as an online portal providing counseling to employees.

A five-shift work schedule was introduced in Lenzing and Heiligenkreuz in 2014. As a result, the recreational options for employees were increased from two to four days. This also made additional days available for employees to take advantage of training and educational programs.

## Corporate Communications

The Corporate Center Corporate Communications is responsible for coordinating and implementing all communications processes on a Group level. The objective is to ensure high quality public relations work and optimal internal communications within the context of a functional organization. The close cooperation with Investor Relations ensures a holistic approach to communications.

Transparent and open communications are essential pre-requisites for a successful, globally operating and publicly listed company such as the Lenzing Group. For this reason, the right communications with all external stakeholders as well as with employees comprise permanent features of Lenzing's corporate culture and an important factor of Lenzing's positioning with all interested public.

### Public relations

In the past financial year, the Lenzing Group once again provided comprehensive and timely information about its ongoing development to the public and to employees. In this regard, Lenzing made use of a variety of different information channels. Information for external stakeholders was disseminated by means of regular press releases, media events and a large number of individual talks with journalists. This took place with the personal involvement of the Management Board and appropriate preparatory work, as well as via the Corporate Center Corporate Communications.

The Website **www.lenzing.com** is the calling card of the company. A relaunch of the company's Internet presence was developed and prepared during the year under review. The newly designed Website will go online in the first half of 2015.

An extensive online platform for the correct use of Lenzing's corporate design both internally and outside of the company was created to strengthen the company's corporate identity and ensure a unified appearance to external stakeholders. Workshops and trainings on the issue of corporate design were held at various company sites.

The Intranet of the Lenzing Group (Group Portal) was adapted to reflect the reorganization process and was developed on an ongoing basis.

One important means of communications is offering plant tours at the Lenzing site for international customers, suppliers, business partners, schools in the region along with interested universities and universities of applied sciences. In the 2014 financial year, some 3,700 people were given a tour of the factory grounds, and thus familiarized with the achievements of the Lenzing Group.

Employee and customer magazines, digital newsletters and Lenzing's own TV format represent other key information channels. Employee magazines with a local focus regularly inform the staff about the latest news from the world of Lenzing. Local publications in Lenzing, Purwakarta and Paskov regularly provided locally relevant information in the respective national languages. The “Lenzinger“, the employee magazine for all Austrian facilities, has been published in an online format since the autumn of 2014.

The newly-designed online magazine “Lenzing Life” was published for the first time in December 2014 as the successor to the previous magazine “Lenzing Inside” which was issued in printed form. Thanks to the online format, employees of the Lenzing Group, customers and other stakeholders are given timely information about the latest news about Lenzing. All articles are now complemented by in-depth information, videos and picture galleries. “Lenzing Life” comprises the successful development of an up-to-date and modern multimedia product opening up an attractive window onto the world of Lenzing. This new magazine is distributed worldwide and thus appears in two languages. It can also be accessed by any interested person at **www.lenzinglife.com**.

For years “Lenzing TV” has proven to be a tried and tested special interest TV magazine. It is produced in cooperation with the Upper Austrian regional TV station BTV and broadcast via cable network in the Greater Upper Austrian region. Moreover, these broadcasts can also be received via satellite. “Lenzing TV” is synchronized in English and made available on the Lenzing Group Intranet to all employees around the world. Selected reports are also published on the online magazine “Lenzing Life”.

One focal point of the Corporate Center Corporate Communications in 2014 was on further expanding internal communications on a global basis.

The info screens installed at highly frequented locations at the Lenzing site have proven their value, and will now be used throughout the entire year to provide information on current topics to employees. This tool can be rolled out to all sites at any time. During the reporting period a pilot project was also launched on the use of social media tools for internal collaboration and communication spanning sites and hierarchies.

The most important priority was implementing communication measures to support the reorganization of the company and the excelLENZ program. In times of extensive change, Lenzing considers a reliable and sound information policy, both internally and externally, to be absolutely essential.

## Investor Relations

### The Lenzing share

The Lenzing share is publicly traded on the Prime Market of the Vienna Stock Exchange, and in its role as one of the 20 largest listed companies is also traded on the benchmark ATX index (Austrian Traded Index).

In 2014 average daily turnover of the Lenzing share amounted to EUR 2.5 mn. On balance, 13.2 mn shares were traded in 2014. This corresponds to a total turnover of EUR 615,892,097.00. The market capitalization of the Lenzing share at the end of 2014 (December 30, 2014) was EUR 1,400,247,000.

In addition, the Lenzing share is listed on the Vienna Stock Exchange index WBI and on VÖNIX, the VBV Austrian Sustainability Index. Approximately 60 of the largest Austrian companies listed on the Vienna Stock Exchange were analyzed to compile the sustainability index, and evaluated on the basis of 100 different environmental and social criteria. 21 of these firms have been accepted for listing in the current VÖNIX Index. The Lenzing share has been listed uninterruptedly in the VÖNIX Index since the year 2005.

**Share information**

| | |
|---|---|
| ISIN | AT 0000644505 |
| Ticker symbol | LNZ |
| Bloomberg | LNZ:AV |
| Reuters | LNZNF.PK |
| Listing | Vienna Stock Exchange |
| Initial listing | September 19, 1985 |
| Indices | ATX Prime, VÖNIX, WBI |
| Type of share | No-par-value shares |
| Number of shares | 26,550,000 |
| Nominal capital | EUR 27,574,071.43 |
| Financial year | Jan. 1 to Dec. 31 |

**Key indicators 2014**

| | |
|---|---|
| Trading volume | 13.2 mn |
| Average daily turnover | EUR 2.5 mn |
| Total turnover | EUR 615,892,097.00 |
| Year’s high | EUR 55.43 |
| Year’s low | EUR 39.99 |
| Closing price Dec. 30 | EUR 52.74 |
| Annual performance | +26.67% |
| Market capitalization Dec. 30 | EUR 1,400,247,000 |
| Ranking stock exchange turnover | 18 |
| Ranking market capitalization | 21 |

# MANAGEMENT REPORT 2014

## Share performance

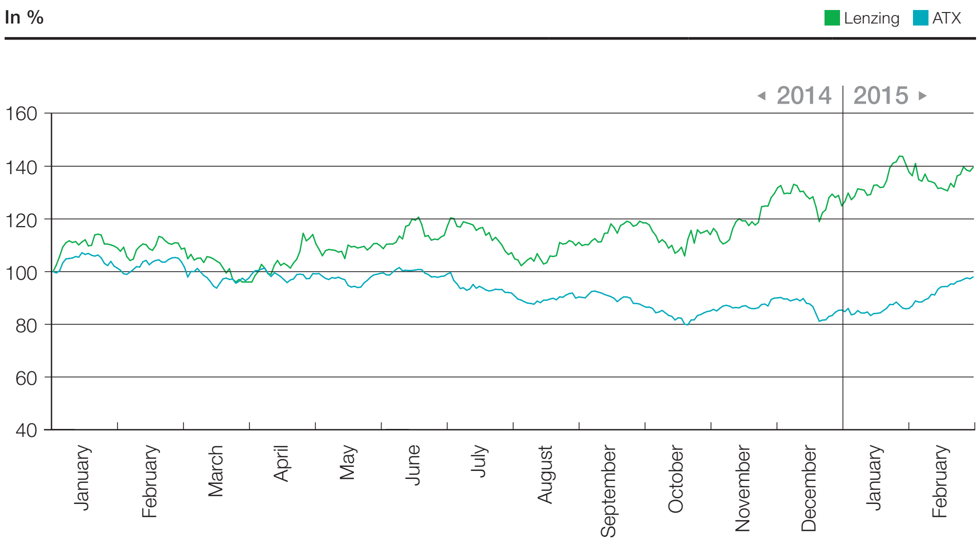
Global stock markets continued to develop positively in 2014 due to the relaxed monetary policy pursued by the central banks, but not as dynamically as in the previous year.

In 2014 the Vienna benchmark index ATX was once again not able to keep pace with developments on international stock exchanges in spite of an approximately 23% rise in trading volume. In particular, it came under severe pressure in the second half of the year due to the Russia-Ukraine crisis and the decline in oil prices. Following a good start, the ATX index closed the year at 2,160.08 points, a decrease of minus 15.18%.

The capital market reacted positively to the package of measures implemented by Lenzing AG in 2013/14. Following a very weak trading year in 2013, the Lenzing share was one of the top five companies on the ATX index in terms of share performance, with the Lenzing share increasing 26.67% in value in 2014. The Lenzing share closed at EUR 52.74 on December 30, 2014. The year's low of EUR 39.99 was reached in March 2014, whereas the highest share price of EUR 55.43 was recorded in December 2014.

### The Lenzing share price

In %



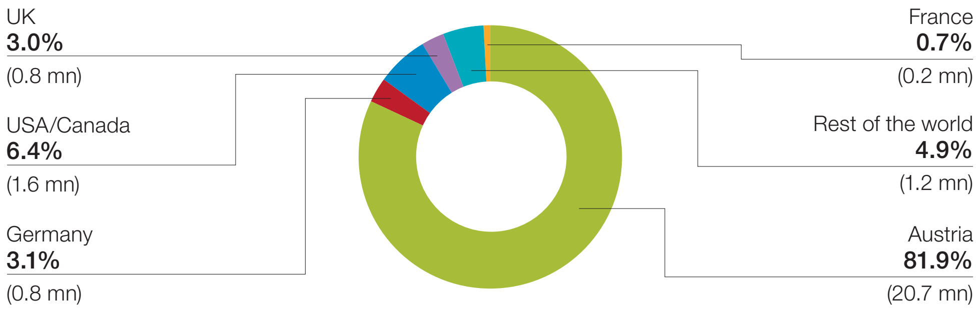

## Nominal capital and shareholder structure

The nominal capital of Lenzing AG amounts to EUR 27,574,071.43 and is divided into 26,550,000 individual shares. The majority owner is the B&C Group, which holds a 67.6% stake of the voting rights. Another 5% of the voting rights are held by Oberbank AG, a leading Austrian regional bank. The remaining 27.4% of the shares are in free float with international and Austrian investors. The company does not have any treasury stock.

The geographical breakdown of the identifiable share ownership as per December 31, 2014 is as follows:

**Share ownership by country**

**In % and millions of shares as at Dec. 31, 2014 (25,324,998 shares identified)**




## Position of shareholders

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

There are no shares that confer special rights to control. The authorization to buy back treasury shares was not exercised during the year under review.

There are no provisions other than those stipulated by law with respect to the appointment or dismissal of members of the Management Board and Supervisory Board.

## Annual Shareholders´ Meeting 2014 and dividend policy

The Annual Shareholders´ Meeting resolving upon the 2013 financial year approved the distribution of a dividend amounting to EUR 1.75 per no-par-value share. This corresponded to a total dividend payout of EUR 46,462,500.00 for the 26,550,000 no-par-value shares. The dividend payout ratio was 30.7% in relation to the accumulated profits of EUR 151,216,955.03 reported for Lenzing AG.

For the 2014 financial year, the Management Board will propose to the 71st Annual Shareholders´ Meeting scheduled for April 22, 2015 that a dividend of EUR 1.00 per share be distributed to shareholders.

# MANAGEMENT REPORT 2014

### Further disclosures pursuant to Section 243a UGB (Austrian Commercial Code)

There are no provisions other than those stipulated by law with respect to the appointment or dismissal of members of the Management Board and Supervisory Board or amendments to the Articles of Association. There are no significant contractual agreements to which the company is a party, which would take effect, cause major changes or expire in the event of a change in ownership resulting from a takeover bid. No compensation agreements exist between the members of the Management Board and Supervisory Board or with employees in case of a public takeover offer.

## Outlook Lenzing Group 2015

The difficult economic environment hardly changed in the first weeks of 2015 compared to the third and fourth quarters of the year under review.

Even if the dramatic decline in oil prices in Europe in the second half of 2014 and especially in the fourth quarter comprises a welcome economic turbocharger, it has a negative effect on Lenzing's business. The current oil price led to massive price pressure on global polyester prices, which already fell by 25-30% depending on the region in the fourth quarter of 2014 and during the first weeks of 2015.

For this reason, depending on the further development of the oil price, high price volatility on the fiber market is expected to continue in 2015.

Cotton farmers have also begun to react to internationally low cotton prices. Areas of cultivation for the 2015/16 harvest were significantly reduced in the important cotton-growing countries of China and the USA. This could lead to an initial stabilization of prices in the 2015/16 season, but only if there are signs of reductions in cotton inventories and thus a greater demand for cotton.

As a consequence, 2015 will once again be a challenging year for the man-made cellulose fiber industry and thus for the Lenzing Group. The aim will be to successively make up for price reductions in recent months during the course of 2015.

A variety of sales activities to further improve the product mix in the textile segment, such as increasing sales of Lenzing Modal® and particularly the TENCEL® segment strategies, will be at the heart of Lenzing's efforts. The company started the new financial year registering dynamic demand for TENCEL®. Demand for nonwoven fibers is expected to remain strong in 2015. Lenzing is also striving to achieve improvements in its product mix in this area and carry out value-enhancing activities to improve customer benefits.

From a regional perspective, a constant rise in sales volumes on China's domestic market can be expected as a result of moderate growth rates in China, especially in its export business.

Lenzing sees further sales priorities for specialty fibers in the textile segment, above all in Turkey. The USA and Europe will continue to be the main sales areas for nonwovens.

In addition, Lenzing is striving to generate further cost savings by resolutely continuing its excelLENZ program in 2015, which should amount to about EUR 130 mn on an annualized and full-year basis. Taking the cost improvements realized in 2013, the structural savings achieved will rise to approximately EUR 160 mn p.a. starting in the 2016 financial year. This will comprise a further contribution towards reinforcing the competitive strength of the Lenzing Group.

In the medium term, the Lenzing Group also plans to increase its share of specialty fibers in Asia in the field of viscose fibers. This will make it necessary to upgrade, modify and selectively expand existing facilities. Additional investments and programs will also have to be implemented to further optimize the cost position. This will particularly entail measures to reduce material costs and other production costs (e.g. on the basis of targeted dissolving pulp investments or facilities to produce chemicals and energy). Lenzing will continue its focus on sustainability and environmental protection. The successful development of the Lenzing Group should be secured in the medium term with innovations for product applications and intensified sales and marketing activities.

To summarize, the cornerstones of the Lenzing Group's efforts to successfully counteract ongoing difficult market conditions are the following:

- The excelLENZ cost reduction program focusing on structural savings
- Further improvements in Lenzing's market presence by optimizing sales and marketing and intensifying the cooperation with its customers
- The sustainable full utilization of the new TENCEL® fiber production plant at the Lenzing site
- The speedy restructuring of the technical units.

# MANAGEMENT REPORT 2014

## Events after the Reporting Period

In the first quarter of 2015, concrete negotiations took place with respect to a potential sale of Dolan GmbH and European Carbon Fiber GmbH. These two Group companies in the Segment Other had assets of TEUR 30,768 and liabilities of TEUR 13,482 as at December 31, 2014. The disposal could take place within the next twelve months.

The Lenzing Group has not been made aware of any further events significant to it after December 31, 2014 that would have resulted in a different presentation of the financial position and financial performance.

Lenzing, March 12, 2015

**Lenzing Aktiengesellschaft**

**The Management Board**

**Peter Untersperger**
Chief Executive Officer
Chairman of the
Management Board

**Thomas Riegler**
Chief Financial Officer
Member of the
Management Board

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

# CORPORATE GOVERNANCE REPORT 2014

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

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

## Declaration of Commitment

Lenzing AG respects the Austrian Code of Corporate Governance. For the first time, the company committed itself in 2010 to complying with the stipulations contained in the code. The Supervisory Board also unanimously resolved to fully adhere to the ACCG. The code is available on the Internet at **www.corporate-governance.at** in the currently valid version (January 2015). Lenzing AG is required to prepare and publish a Corporate Governance Report in accordance with L-Rule 60 ACCG.

This Corporate Governance Report is publicly available on the Website of Lenzing AG (C-Rule 61 ACCG).

## Corporate Bodies of Lenzing AG

The division of responsibilities of the members of Lenzing's Management Board during the 2014 financial year was as follows:

### 1) Management Board

**Peter Untersperger** (born 1960)
Chairman of the Management Board
First appointed: January 1, 1999
Current mandate expires: March 31, 2016
**Responsibilities:** Global Strategy, Global Human Resources, Innovation & Strategic R&D, Risk Management & Internal Audit, Corporate Communications, Wood Purchasing, Lenzing Technik
**Supervisory Board mandates in other companies:** none

**Friedrich Weninger** (born 1957)
Member of the Management Board
First appointed: January 1, 2009
Current mandate expires: December 31, 2014
**Responsibilities:** TENCEL® Operations, Viscose/Modal Operations, Pulp Operations, Global

# CORPORATE GOVERNANCE REPORT 2014

Fiber Engineering, Operational Excellence, Global Safety, Health & Environment (SHE), Site Service Management Lenzing, Operations Controlling
**Supervisory Board mandates in other companies:** none
Mr. Weninger resigned from his position on the Supervisory Board effective December 31, 2014.

**Robert van de Kerkhof** (born 1964)
Member of the Management Board
First appointed: May 1, 2014
Current mandate expires: April 30, 2017
**Responsibilities:** Global Sales, Business Development Apparel, Business Development Hygiene & Technical, Technical Customer & Quality Management, Product Management Viscose/Modal, Market Intelligence, Marketing Communication, Global Logistics, Marketing & Sales Controlling Service
**Supervisory Board mandates in other companies:** none

**Thomas Riegler** (born 1970)
Member of the Management Board
First appointed: June 1, 2014
Current mandate expires: May 31, 2017
**Responsibilities:** Global Finance, Pulp Trading, Global Purchasing, Global IT, Legal Management & Compliance, Investor Relations, Filaments
**Supervisory Board mandates in other companies:** none

The Management Board manages the business operations of Lenzing Aktiengesellschaft in accordance with prevailing legal regulations, the Articles of Association and the internal rules of procedure applying to the Management Board. The distribution of responsibilities among the members of the Management Board is determined based upon the organizational plan stipulated in the internal rules of procedure, which also regulates the mode of cooperation among the Management Board members. Furthermore, the Management Board is required to fully comply with the rules stipulated in the Austrian Code of Corporate Governance.

## 2) Supervisory Board

### 2.1. Composition

**Michael Junghans** (born 1967)
Since March 29, 2011: Chairman (up to March 29, 2011: Deputy Chairman)
First appointed: April 30, 2010
In a letter dated March 10, 2015, Michael Junghans announced his resignation from the Supervisory Board effective April 22, 2015.
**Supervisory Board mandates in other companies:** Semperit AG Holding

**Veit Sorger** (born 1942)
Since March 29, 2011: Deputy Chairman
First appointed: June 4, 2004
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year.
**Supervisory Board mandates in other companies:** Mondi AG (Chairman), Semperit AG Holding (Chairman), Constantia Industries AG (Chairman), Binder+Co AG, GrECo International Holding AG

**Hanno M. Bästlein** (born 1963)
First appointed: April 28, 2014: First Deputy Chairman
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2016 financial year.
**Supervisory Board mandates in other companies:** Duropack GmbH (Chairman), AMAG Austria Metall AG, VA Intertrading AG (Chairman)

**Helmut Bernkopf** (born 1967)
First appointed: April 23, 2009
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year.
**Supervisory Board mandates in other companies:** CA Immobilien Anlagen AG (up to October 28, 2014), Schöllerbank AG, Österreichische Kontrollbank AG, Card Complete Service Bank AG (Chairman), Bausparkasse Wüstenrot AG, BWA Beteiligungs- und Verwaltungs-Aktiengesellschaft

**Franz Gasselsberger** (born 1959)
First appointed: April 24, 2013
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2015 financial year.
**Supervisory Board mandates in other companies:** Bank für Tirol und Vorarlberg AG (Chairman), BKS Bank AG, Voestalpine AG, AMAG Austria Metall AG

**Josef Krenner** (born 1952)
First appointed: April 23, 2009
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year.
**Supervisory Board mandates in other companies:** Flughafen Linz GmbH, B&C Industrieholding GmbH, AMAG Austria Metall AG (Chairman)

**Martin Payer** (born 1978)
First appointed: June 15, 2007
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year.
**Supervisory Board mandates in other companies:** none
Martin Payer resigned from his position on the Supervisory Board on April 28, 2014 at his own request.

**Patrick Prügger** (born 1975)
First appointed: March 29, 2011
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2015 financial year.
**Supervisory Board mandates in other companies:** Semperit AG Holding, AMAG Austria Metall AG

# CORPORATE GOVERNANCE REPORT 2014

**Andreas Schmidradner** (born 1961)
First appointed: June 12, 2008
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2016 financial year.
**Supervisory Board mandates in other companies:** Semperit AG Holding, VAMED AG

**Astrid Skala-Kuhmann** (born 1953)
First appointed: April 19, 2012
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year.
**Supervisory Board mandates in other companies:** Semperit AG Holding

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

**Rudolf Baldinger** (born 1954)
First appointed 1998

**Daniela Födinger** (born 1964)
First appointed 2014

**Franz Berlanda** (born 1961)
First appointed 2014

**Georg Liftinger** (born 1961)
First appointed 2008

**Johann Schernberger** (born 1964)
First appointed 2001

### 2.2. Independence (C-Rules 53 and 54 ACCG)

The Supervisory Board has adopted the guidelines relating to the independence of its members pursuant to Appendix 1 of the Austrian Code of Corporate Governance.

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

Pursuant to C-Rule 54 of the ACCG, the Supervisory Board members Veit Sorger, Helmut Bernkopf, Franz Gasselsberger, Astrid Skala-Kuhmann and Josef Krenner declared in the 2014 financial year that they were neither shareholders with a stake of more than 10% in the company nor did they represent such a shareholder's interests.

### 2.3. Mode of operation of the Supervisory Board

To fulfill its responsibility of overseeing the work of the Management Board, the Supervisory Board of Lenzing AG convenes at least once every quarterly period for a meeting. A total of six Supervisory Board meetings took place during the year under review (C-Rule 36 ACCG).

In the 2014 financial year the Supervisory Board of Lenzing AG constituted six committees consisting of its own members (C-Rules 34 and 39 ACCG):

### 2.3.1. Audit Committee

The Audit Committee carries out the responsibilities assigned to it pursuant to Section 92 para 4a Austrian Stock Corporation Act. This stipulates that these responsibilities are primarily in auditing and preparing the adoption of the annual financial statements and the evaluation of the proposal made by the Management Board on the distribution of profits as well as the Management Report. The Audit Committee also examines the consolidated financial statements of the Group and the Group Management Report and makes a recommendation for the selection of the auditors. Furthermore, the Audit Committee examines the effectiveness of the internal control system (ICS), internal auditing and the risk management system of the company. The committee is required to report to the Supervisory Board about its activities. In the 2014 financial year the Audit Committee convened three times.

**Members:** Hanno M. Bästlein (Chairman as of the Annual Shareholders' Meeting on April 28, 2014), Michael Junghans, Veit Sorger (up until Annual Shareholders' Meeting on April 28, 2014). Patrick Prügger, Andreas Schmidradner, Rudolf Baldinger, Georg Liftinger

### 2.3.2. Nomination Committee

The Supervisory Board has established a Nomination Committee which makes recommendations to the Supervisory Board on filling new or vacant positions on the Management Board, and also deals with issues relating to succession planning. Moreover, the committee makes proposals to the Annual Shareholders' Meeting for filling vacant positions on the Supervisory Board. No meetings of the Nomination Committee were held in the course of the 2014 financial year.

**Members:** Hanno M. Bästlein (Chairman as of the Annual Shareholders' Meeting on April 28, 2014), Michael Junghans, Veit Sorger, Rudolf Baldinger, Georg Liftinger

### 2.3.3. Remuneration Committee

The Supervisory Board has set up a Remuneration Committee which deals with the terms and conditions of employment contracts with Management Board members, ensures compliance with C-Rules 27, 27a and 28 ACCG and also assesses the remuneration policy with respect to Management Board members in regular intervals. The Remuneration Committee convened twice during the 2014 financial year, focusing in particular with evaluating the performance of the Management Board in the 2013 financial year and performance targets for 2014, as well as general remuneration issues relating to the Management Board.

**Members:** Hanno M. Bästlein (Chairman as of the Annual Shareholders' Meeting on April 28, 2014), Michael Junghans, Veit Sorger

### 2.3.4. Strategy Committee

The Supervisory Board established a Strategy Committee concerning itself with evaluating the strategic positioning of the company and monitoring the implementation of the business strategy. In 2014 the Management Board developed strategic options for the Lenzing Group on the basis of a market and competition analysis with the support of external consultants,

# CORPORATE GOVERNANCE REPORT 2014

which was discussed with the Strategy Committee. Four meetings of the Strategy Committee were held in the 2014 financial year.

**Members:** Hanno M. Bästlein (Chairman as of the Annual Shareholders' Meeting on April 28, 2014), Michael Junghans, Astrid Skala-Kuhmann, Veit Sorger, Rudolf Baldinger, Georg Liftinger

#### 2.3.5. excelLENZ Committee

The excelLENZ Committee deals with the ongoing monitoring and control of operational measures of the global cost savings and improvement program "excelLENZ 2.0". The focal points include savings designed to improve margins, reduce costs and optimize cash flow. The excelLENZ Committee convened three times in the course of the 2014 financial year.

**Members:** Michael Junghans (Chairman), Hanno M. Bästlein, Veit Sorger, Andreas Schmidradner, Rudolf Baldinger, Georg Liftinger

#### 2.3.6. Share Buyback Committee

The committee was established in order to be able to make quick decisions in the case of share buyback activities. No meetings of the committee were held during the 2014 financial year.

**Members:** Hanno M. Bästlein (Chairman), Michael Junghans, Patrick Prügger, Franz Gasselsberger, Rudolf Baldinger, Georg Liftinger

### 2.4. Cooperation of the Management Board and Supervisory Board

The Management Board reports to the Supervisory Board on fundamental issues relating to the future business policies of the company and the Group, as well as the future development of the financial position and financial performance of the Lenzing Group. In addition, the Management Board regularly informs the Supervisory Board about business developments and the current situation of the company and the Group in comparison to forecasts, taking the future development into account. The Management Board and Supervisory Board also discuss the long-term growth objectives of the Lenzing Group in a separate strategy meeting.

### 2.5. Self-evaluation of the Supervisory Board

The Supervisory Board carried out a self-evaluation in the 2014 financial year in accordance with C-Rule 36 ACCG in the form of a questionnaire which focused on issues such as the controlling function of the Supervisory Board with respect to the Management Board as well as the compliance with the Management Board's obligations to provide information to the Supervisory Board. The results of the self-evaluation show that the activities of the Supervisory Board of Lenzing AG are given an overall rating of good. The Supervisory Board decided to follow up on several suggestions which were made during the self-evaluation process. Furthermore, a list of measures designed to enhance the efficiency of the Supervisory Board's work was prepared.

## 3) Principles of Management Board and Supervisory Board Remuneration (C-Rule 30 ACCG)

The remuneration models for the Management Board employment contracts were harmonized over the last two years, and the variable salary components in these contracts were expanded. The remuneration of all four Management Board members in the 2014 financial year consists of a fixed and a variable performance-oriented salary component. In addition, the Management Board is given a long-term bonus bank model. The maximum bonus is limited to 133% of the fixed annual salary (Untersperger) and 88% (van de Kerkhof, Riegler). A stock option program or a program for the beneficial transfer of shares does not exist.

- The short-term profit sharing scheme for the Management Board is primarily determined by the by the criteria of EBITDA, Group net profit for the year and ROCE as well as individual qualitative goals.

- With respect to the 2014 financial year, the targets used to determine the long-term bonus bank model are as follows: 2/3 of the bonus bank model for Mr. Untersperger and Mr. Weninger and 50% for Mr. Riegler and Mr. van de Kerkhof will be calculated on the basis of performance criteria of the Lenzing Group (sales, EBIT margin, total shareholder return) evaluated over a period of several years and compared to a peer group, and 1/3 and 50% respectively will consist of the achievement of qualitative targets. Payment will be distributed over a three-year period.

- Furthermore, the Management Board is also entitled to the company making contributions to a pension fund. This amounted to EUR 118 thousand in the 2014 financial year (2013: EUR 108 thousand).

- Company pension benefits as well as severance payments and entitlements to benefits in case an employment contract of a board member is terminated are determined by valid federal regulations (Company Employee Pension Act).

- In the case of the premature termination of a Management Board contract, the conditions stipulated in C-Rule 27a ACCG are adequately taken into account.

- The company has taken out a Directors and Officers Liability Insurance (D & O) policy as well as legal protection insurance for the Management Board members.

# CORPORATE GOVERNANCE REPORT 2014

**Amount expensed for active salaries of the Management Board members of Lenzing AG:**

## Fixed and variable current remuneration and termination pay for active members of the Management Board (expensed)

EUR '000

| | Peter Untersperger | | Thomas Riegler | | Robert van de Kerkhof | | Friedrich Weninger[1] | | Thomas Winkler[2] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Fixed current remuneration | 585 | 566 | 259 | 0 | 292 | 0 | 435 | 434 | 0 | 435 | 1,571 | 1,434 |
| Variable current remuneration | 190 | 318 | 116 | 0 | 133 | 0 | 315 | 352 | 0 | 39 | 754 | 708 |
| Termination pay | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,620 | 0 | 1,620 |
| **Total** | **774** | **884** | **376** | **0** | **425** | **0** | **750** | **785** | **0** | **2,094** | **2,325** | **3,763** |

The amounts reported for Mr. Untersperger and Mr. Weninger in 2014 include variable salary components which were substantiated in previous years and recognized as an expense once the last condition was met in 2014. An additional EUR 171 thousand (2013: EUR 0 thousand) was also recognized as an expense to cover the payments to which Mr. Weninger was entitled.

In addition, entitlements derived from long-term bonus bank models (other long-term employee benefits) fell by EUR 47 thousand in the 2014 financial year (2013: increase of EUR 300 thousand). Remuneration for former members of the Lenzing Management Board or their surviving dependants amounted to EUR 952 thousand in 2014 (2013: EUR 927 thousand).

Members of the Management Board of Lenzing AG received a total of EUR 102 thousand in remuneration in the 2014 financial year for consulting services rendered before their Management Board mandates (2013: EUR 0 thousand).

The principles underlying the remuneration paid to members of the Supervisory Board are laid down in the Articles of Association of Lenzing AG (Section 13), which are published on the Website of the company. In accordance with the Articles of Association, the members of the Supervisory Board are granted an annual remuneration corresponding to their responsibilities as well as the overall situation and financial position of the company.

The remuneration of the Supervisory Board members for the 2013 financial year as resolved upon by the Annual Shareholders' Meeting of Lenzing AG held on April 28, 2014 amounted to the following:

a. EUR 30,000 for the Chairman of the Supervisory Board
b. EUR 25,000 for the Deputy Chairman of the Supervisory Board
c. EUR 20,000 for each other member of the Supervisory Board
d. EUR 5,000 for the Chairman of the Audit Committee and Strategy Committee as well as for financial experts
e. EUR 2,500 for the Chairman of the Nomination Committee and Remuneration Committee and for each member of a Supervisory Board committee

[1] Member of the Management Board until December 31, 2014. [2] Member of the Management Board until December 31, 2013.

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

Accordingly, the total remuneration paid to the members of the Supervisory Board amounted to EUR 294,450. The remuneration paid during the 2014 financial year to the individual members is listed below:

| | | |
|---|---|---|
| Michael Junghans | EUR | 55,000 |
| Veit Sorger | EUR | 45,000 |
| Helmut Bernkopf | EUR | 26,000 |
| Josef Krenner | EUR | 26,000 |
| Martin Payer | EUR | 26,000 |
| Patrick Prügger | EUR | 32,000 |
| Andreas Schmidradner | EUR | 31,000 |
| Astrid Skala-Kuhmann | EUR | 28,250 |
| Franz Gasselsberger | EUR | 18,750 |
| | | |
| Rudolf Baldinger | EUR | 1,650 |
| Georg Liftinger | EUR | 1,950 |
| Gerhard Ratzesberger | EUR | 150 |
| Johann Schernberger | EUR | 1,050 |
| Daniela Födinger | EUR | 1,050 |
| Franz Berlanda | EUR | 600 |

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

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

In recent years, the percentage of women holding qualified positions in the company has steadily increased. This includes Ms. Astrid Skala-Kuhmann, who has served on the Supervisory Board since 2012 and Daniela Födinger, also a Supervisory Board member since 2014. Moreover, inasmuch as it is made possible by the respective position, the company promotes the compatibility of career and family life on the basis of flexible working time models and the possibility to work at home.

## 5) Compliance

After establishing a separate staff unit, the "Group Compliance Office", and developing a Code of Conduct in 2012, the code was adopted as binding rules of behavior by all operating units and subsidiaries. Furthermore, the Issuers' Compliance Directive was revised and published. A Group-wide compliance management system (CMS) was further developed, communicated and implemented within the context of the Lenzing Group Portal (Intranet). In addition to a

# CORPORATE GOVERNANCE REPORT 2014

help platform and various information systems, employees also have the opportunity to report suspected violations of compliance rules. More than 250 employees have been given relevant training since the staff unit was set up. The focus of the classroom-based instruction was CMS as well as anti-corruption issues and competition law. A series of guidelines were issued, including procedural instructions related to house searches. A report on compliance activities at Lenzing AG is submitted once a year to the Audit Committee according to C-Rule 18a ACCG.

## 6) Directors' Dealings

The disclosure of share purchases and sales by members of the Management Board and Supervisory Board is carried out in accordance with valid provisions contained in the Austrian Stock Exchange Act. A link to the Website of the Financial Market Authority can be found on the Website of Lenzing AG.

## 7) Risk management and internal auditing

The effectiveness of Lenzing's risk management system was evaluated by the auditor Deloitte Audit in accordance with C-Rule 83 ACCG and issued an unqualified opinion. The Management Board was informed about the results. Furthermore, the Head of Risk Management annually reports about current risks during a meeting of the Audit Committee.

The Internal Audit Department reports directly to the Management Board. The annual auditing plan is determined in close collaboration with the Management Board and the Audit Committee. Similarly, the Head of Internal Audit reports to the Audit Committee about the key audit findings.

## 8) External evaluation

In accordance with C-Rule 62 ACCG, Lenzing submits to an external evaluation of its compliance with the C-Rules and R-Rules of the Austrian Code of Corporate Governance on a regular basis, but at least every third year. Lenzing contracted PwC Upper Austria to evaluate its Corporate Governance Reports 2014. The external evaluation concluded in both cases that the declaration provided by Lenzing AG committing the company to complying with the Austrian Code of Corporate Governance (July 2012 version) gives a true and fair view of the actual situation. All external evaluation reports can be viewed on the company's Website at **www.lenzing.com**.

Lenzing Aktiengesellschaft
Lenzing, March 12, 2015

**The Management Board**

**Peter Untersperger** **Thomas Riegler** **Robert van de Kerkhof**


LENZING

# CONSOLIDATED FINANCIAL STATEMENTS 2014

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## Contents

Lenzing AG

# Consolidated Income Statement

**for the period January 1 to December 31, 2014**

EUR '000

| | Note | Group 2014 | Group 2013 | Continued operations 2013 | Discontinued operations[1] 2013 |
|---|---|---|---|---|---|
| Revenue | (7) | 1,864,222 | 1,908,869 | 1,858,971 | 49,898 |
| Changes in inventories of finished goods and work in progress | | (2,561) | 11,532 | 12,286 | (753) |
| Work performed by the Group and capitalized | | 34,631 | 52,223 | 52,087 | 136 |
| Other operating income | (8) | 48,530 | 68,090 | 36,642 | 31,448[2] |
| Cost of material and other purchased services | (9) | (1,199,241) | (1,253,434) | (1,223,413) | (30,022) |
| Personnel expenses | (10) | (292,000) | (337,034) | (325,985) | (11,049) |
| Other operating expenses | (12) | (213,279) | (224,835) | (216,734) | (8,101) |
| **Earnings before interest, taxes, depreciation and amortization (EBITDA)[5]** | | **240,302** | **225,411** | **193,854** | **31,557[2]** |
| Amortization of intangible assets and depreciation of property, plant and equipment | (11) | (221,546) | (142,103) | (138,297) | (3,805) |
| Income from the release of investment grants | | 3,170 | 3,100 | 3,091 | 9 |
| **Earnings before interest and taxes (EBIT)[5]** | | **21,926** | **86,409** | **58,648** | **27,761[2]** |
| Income from investments accounted for using the equity method | (14) | (541) | 3,831 | 3,831 | 0 |
| Income from non-current and current financial assets | (15) | 4,519 | 714 | 700 | 13 |
| Financing costs | (16) | (27,416) | (31,269) | (31,265) | (4) |
| **Financial result** | | **(23,439)** | **(26,725)** | **(26,734)** | **9** |
| Allocation of profit or loss to puttable non-controlling interests | (34) | 8,818 | 8,430 | 9,049 | (619) |
| **Earnings before taxes (EBT)[5]** | | **7,305** | **68,113** | **40,962** | **27,151[2]** |
| Income tax expense | (17) | (21,466) | (18,079) | (10,332) | (7,747)[3] |
| **Profit/loss for the year** | | **(14,160)** | **50,034** | **30,630** | **19,404[4]** |
| Profit/loss for the year attributable to shareholders of Lenzing AG | | (13,478) | 50,113 | 30,709 | 19,404[4] |
| Attributable to non-controlling interests | | (682) | (79) | (79) | 0 |
| **Earnings per share** | **(18)** | **EUR** | **EUR** | **EUR** | **EUR** |
| Diluted = undiluted | | (0.51) | 1.89 | 1.16 | 0.73 |

1) For details to column "Discontinued operations" see Note 5.

2) Incl. gain on disposal before taxes of EUR 25,865 thousand relating to the sale of BU Plastics (see Note 5).

3) Incl. income taxes of EUR 7,689 thousand relating to the sale of BU Plastics (see Note 5).

4) Incl. gain on disposal after taxes of EUR 18,176 thousand relating to the sale of BU Plastics (see Note 5).

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

# CONSOLIDATED FINANCIAL STATEMENTS 2014

Lenzing AG

## Consolidated Statement of Comprehensive Income

**for the period January 1 to December 31, 2014**

EUR '000

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Profit/loss for the period as per consolidated income statement** | | **(14,160)** | **50,034** |
| **Items that will not be reclassified subsequently to profit or loss** | | | |
| Remeasurement of defined benefit liability (thereof from investments accounted for using the equity method: 2014: EUR -718 thousand, 2013: EUR -25 thousand) | (33) | (14,614) | (1,394) |
| Income tax relating to these components of other comprehensive | (29) | 3,496 | 367 |
| | | **(11,118)** | **(1,027)** |
| **Items that may be reclassified to profit or loss** | | | |
| Foreign operations – foreign currency translation differences arising during the reporting period (thereof from investments accounted for using the equity method: 2014: EUR 178 thousand, 2013: EUR -443 thousand) | (29) | 48,618 | (31,895) |
| Foreign operations – reclassification of foreign currency translation differences on loss of control | | 0 | (580) |
| Available-for-sale financial assets – net fair value gains/losses on remeasurement recognized in the reporting period | (29) | 790 | (202) |
| Available-for-sale financial assets – reclassification of amounts relating to financial assets disposed of in the reporting period | (29) | 0 | (29) |
| Cash flow hedges – effective portion of changes in fair value recognized in the reporting period (thereof from investments accounted for using the equity method: 2014: EUR -23 thousand, 2013: EUR 0 thousand) | (29) | (35,107) | 1,997 |
| Cash flow hedges – reclassification to profit or loss (thereof from investments accounted for using the equity method: 2014: EUR 18 thousand, 2013: EUR 0 thousand) | (29) | 7,653 | (3,565) |
| Income tax relating to these components of other comprehensive income | (29) | 6,057 | 787 |
| | | **28,012** | **(33,486)** |
| **Other comprehensive income - net of tax** | | **16,893** | **(34,513)** |
| **Total comprehensive income** | | **2,733** | **15,521** |
| Attributable to shareholders of Lenzing AG | | 602 | 16,499 |
| Attributable to non-controlling interests | | 2,131 | (979) |

Lenzing AG

# Consolidated Statement of Financial Position as at December 31, 2014

EUR '000

| Assets | Note | 31/12/2014 | 31/12/2013 |
|---|---|---|---|
| Intangible assets | (19) | 21,931 | 87,411 |
| Property, plant and equipment | (20) | 1,322,490 | 1,324,509 |
| Investments accounted for using the equity method | (21) | 37,956 | 39,083 |
| Financial assets | (22) | 23,194 | 23,176 |
| Deferred tax assets | (32) | 21,534 | 11,271 |
| Current tax assets | | 6,865 | 17,595 |
| Other non-current assets | (23) | 9,003 | 5,173 |
| **Non-current assets** | | **1,442,975** | **1,508,217** |
| Inventories | (24) | 344,092 | 311,483 |
| Trade receivables | (25, 26) | 232,769 | 258,841 |
| Current tax assets | | 13,785 | 10,531 |
| Other current assets | (27) | 69,640 | 62,970 |
| Cash and cash equivalents | (36) | 271,791 | 287,882 |
| **Current assets** | | **932,076** | **931,707** |
| **Total assets** | | **2,375,051** | **2,439,924** |

| Equity and liabilities | Note | 31/12/2014 | 31/12/2013 |
|---|---|---|---|
| Share capital | | 27,574 | 27,574 |
| Capital reserves | | 133,919 | 133,919 |
| Other reserves | | (30,153) | (44,234) |
| Retained earnings | | 890,376 | 950,390 |
| **Equity attributable to shareholders of Lenzing AG** | | **1,021,716** | **1,067,649** |
| Non-controlling interests | | 23,919 | 21,813 |
| **Equity** | **(29)** | **1,045,634** | **1,089,462** |
| Financial liabilities | (31) | 537,033 | 609,605 |
| Government grants | (30) | 21,994 | 22,990 |
| Deferred tax liabilities | (32) | 44,830 | 41,797 |
| Provisions | (33) | 130,007 | 106,786 |
| Puttable non-controlling interests | (34) | 12,410 | 19,534 |
| Other liabilities | (35) | 7,640 | 2,302 |
| **Non-current liabilities** | | **753,914** | **803,015** |
| Financial liabilities | (31) | 192,745 | 191,075 |
| Trade payables | (35) | 181,130 | 176,592 |
| Government grants | (30) | 4,565 | 3,035 |
| Current tax liabilities | | 25,186 | 14,782 |
| Provisions | (33) | 81,382 | 126,423 |
| Other liabilities | (35) | 90,493 | 35,540 |
| **Current liabilities** | | **575,502** | **547,447** |
| **Total assets** | | **2,375,051** | **2,439,924** |

# CONSOLIDATED FINANCIAL STATEMENTS 2014

Lenzing AG

## Consolidated Statement of Changes in Equity

**for the period January 1 to December 31, 2014**

| | Note | Share capital | Capital reserves | Foreign currency translation reserve |
|---|---|---|---|---|
| **As at 01/01/2013** | | **27,574** | **133,919** | **12,036** |
| Profit/loss for the year according to consolidated income statement | | 0 | 0 | 0 |
| Other comprehensive income – net of tax | | 0 | 0 | (30,969) |
| **Total comprehensive income** | | **0** | **0** | **(30,969)** |
| Acquisition of non-controlling interests and other changes in scope of consolidation | (4, 29) | 0 | 0 | 0 |
| Dividends | | 0 | 0 | 0 |
| Reclassification due to settlement or disposal of defined benefit plans | (33) | 0 | 0 | 0 |
| **As at 31/12/2013 = 01/01/2014** | | **27,574** | **133,919** | **(18,932)** |
| Profit/loss for the year according to consolidated income statement | | 0 | 0 | 0 |
| Other comprehensive income – net of tax | | 0 | 0 | 45,842 |
| **Total comprehensive income** | | **0** | **0** | **45,842** |
| Acquisition of non-controlling interests and other changes in scope of consolidation | (4, 29) | 0 | 0 | 0 |
| Dividends | | 0 | 0 | 0 |
| **As at 31/12/2014** | | **27,574** | **133,919** | **26,909** |

See in particular Note 29.

| 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 |
| **1,013** | **1,605** | **(26,253)** | **953,262** | **1,103,156** | **27,544** | **1,130,700** |
| 0 | 0 | 0 | 50,113 | 50,113 | (79) | 50,034 |
| (173) | (1,306) | (1,167) | 0 | (33,614) | (900) | (34,513) |
| **(173)** | **(1,306)** | **(1,167)** | **50,113** | **16,499** | **(979)** | **15,521** |
| 0 | 0 | 0 | 1,094 | 1,094 | (4,564) | (3,471) |
| 0 | 0 | 0 | (53,100) | (53,100) | (188) | (53,288) |
| 0 | 0 | 979 | (979) | 0 | 0 | 0 |
| **840** | **299** | **(26,441)** | **950,390** | **1,067,649** | **21,813** | **1,089,462** |
| 0 | 0 | 0 | (13,478) | (13,478) | (682) | (14,160) |
| 589 | (21,286) | (11,064) | 0 | 14,080 | 2,813 | 16,893 |
| **589** | **(21,286)** | **(11,064)** | **(13,478)** | **602** | **2,131** | **2,733** |
| 0 | 0 | 0 | (73) | (73) | 75 | 2 |
| 0 | 0 | 0 | (46,463) | (46,463) | (100) | (46,563) |
| **1,429** | **(20,987)** | **(37,505)** | **890,376** | **1,021,716** | **23,919** | **1,045,634** |

# CONSOLIDATED FINANCIAL STATEMENTS 2014

Lenzing AG

## Consolidated Cash Flow Statement

**for the period January 1 to December 31, 2014**

EUR '000

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Profit/loss for the year (of continued operations)** | | **(14,160)** | **30,630** |
| + Profit/loss for the year of discontinued operations | | 0 | 19,404 |
| + Amortization of intangible assets and depreciation of property, plant and equipment | (11) | 221,546 | 138,297 |
| - Income from the release of investment grants | | (3,170) | (3,091) |
| +/- Change in non-current provisions | | 531 | (30,341) |
| - Income/+ expenses from deferred taxes | | 783 | (1,940) |
| +/- Change in receivables and liabilities from current income tax | | 20,418 | (42,304) |
| +/- Non-cash income from investments accounted for using the equity method | | 581 | (3,790) |
| - Other non-cash income/+ expenses | (37) | 4,277 | 307 |
| Other non-cash income/expenses from discontinued operations | (5) | 0 | (12,621) |
| **Gross cash flow** | | **230,806** | **94,551** |
| +/- Change in inventories | | (18,435) | (38,443) |
| +/- Change in receivables | | 25,887 | (3,991) |
| +/- Change in liabilities | | (19,444) | 28,818 |
| **Change in working capital** | | **(11,992)** | **(13,615)** |
| Change in working capital of discontinued operations | | 0 | 1,345 |
| **Cash flow from operating activities** | | **218,814** | **82,281** |
| - Acquisition of intangible assets, property, plant and equipment | | (104,311) | (246,008)[1] |
| - Acquisition of financial assets | | (2,307) | (8,318) |
| + Proceeds from the sale of intangible assets, property, plant and equipment | | 337 | 936 |
| + Proceeds from the sale/repayment of financial assets | | 3,468 | 40,712 |
| Net cash flows from discontinued operations | (5, 37) | 0 | 60,528 |
| **Cash flow from investing activities** | | **(102,812)** | **(152,151)** |
| - Distribution to shareholders | | (46,563) | (53,288) |
| - Acquisition of non-controlling interests | | 0 | (3,471) |
| + Sale of stakes to non-controlling shareholders | (4) | 2 | 0 |
| + Investment grants | | 1,027 | 1,051 |
| +/- Change in current financial liabilities | | (3,487) | (38,650) |
| + Inflows from private placements | (31) | 0 | 29,000 |
| + Inflows from non-current financial liabilities | | 10,721 | 9,294 |
| - Repayments on non-current financial liabilities | | (100,493) | (73,090) |
| Net cash flows from discontinued operations | (5) | 0 | 5,081 |
| **Cash flow from financing activities** | | **(138,792)** | **(124,071)** |
| **Change in cash and cash equivalents before reclassification** | | **(22,791)** | **(193,941)** |
| +/- Reclassification of cash and cash equivalents from discontinued operations, assets held for sale and disposal groups | | 0 | 2,406 |
| **Total change in cash and cash equivalents** | | **(22,791)** | **(191,535)** |
| Cash and cash equivalents at beginning of the year | | 287,882 | 481,658 |
| Currency translation adjustment relating to cash and cash equivalents | | 6,700 | (2,242) |
| **Cash and cash equivalents at the end of the year** | **(36)** | **271,791** | **287,882** |
| **Additional information on payments in cash flow from operating activities:** | | | |
| Interest payments received | | 1.714 | 4.245 |
| Interest payments made | | 23.805 | 23.183 |
| Income taxes paid | | 370 | 59.137 |
| Distributions received from investments accounted for using the equity method | | 40 | 40 |

[1] Excluding acquisition of intangible assets and property, plant and equipment of former BU Plastics (2013: EUR 2,671 thousand).

Lenzing AG

# Notes to the Consolidated Financial Statements

as at December 31, 2014

# General Information

## NOTE 1 Fundamentals

### Description of the company and its business activities

The Lenzing Group (the "Group") consists of Lenzing Aktiengesellschaft (Lenzing AG) and its consolidated companies. Lenzing AG is a listed stock corporation under Austrian law. It is entered in the Commercial Register of the Wels Commercial and Regional Court, Austria, under FN 96499 k. Its registered office is Werkstrasse 2, 4860 Lenzing, Austria. The shares of Lenzing AG are listed on the Prime Market (since April 18, 2011) and in the ATX benchmark index (since September 19, 2011) of the Vienna Stock Exchange in Vienna, Austria.

The main shareholder of Lenzing AG as at December 31, 2014 was the B&C Group, which directly and indirectly holds 67.60% of the share capital of Lenzing AG (December 31, 2013: 67.60%). The direct majority shareholder of Lenzing AG is B&C Lenzing Holding GmbH, Vienna. In addition, B&C Iota GmbH & Co. KG, Vienna, also holds shares in Lenzing AG. The indirect majority shareholder of Lenzing AG, which prepares and publishes consolidated financial statements including the Lenzing Group, is B&C Industrieholding 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 man-made cellulose fibers. A significant portion of the pulp needed for production purposes is manufactured in the Group's own plants or partially bought in. The most important raw material for the manufacture of pulp is wood, which is bought in. The Lenzing Group also operates in mechanical and plant engineering and offers engineering services. Specialty products made of plastic polymers are also produced. The Lenzing Group has production locations in Austria (Lenzing and Heiligenkreuz), Germany (Kelheim), the Czech Republic (Paskov), the UK (Grimsby), the United States (Mobile), Indonesia (Purwakarta) and China (Nanjing). The sales network comprises sales companies in China (Hong Kong and Shanghai) and sales offices in Indonesia (Jakarta), India (Coimbatore) and the United States (New York).

### Presentation of the consolidated financial statements

The consolidated financial statements for the period from January 1 to December 31, 2014 were prepared in accordance with all International Financial Reporting Standards (IFRSs) and interpretations effective as at the end of the reporting period, as endorsed in the EU. The additional requirements of section 245a para 1 of the Austrian Commercial Code (österreichisches Unternehmensgesetzbuch – öUGB) were also fulfilled.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

The reporting currency is euro (EUR), which is also the functional currency of Lenzing AG and a majority of its subsidiaries. The figures shown in these consolidated financial statements and in the notes, unless stated otherwise, have been rounded up to the next thousand. Arithmetic differences due to rounding effects can occur when adding up rounded amounts and percentages using automatic tools.

The consolidated financial statements consist of the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements.

## Use of financial key figures

The financial key figures used in the consolidated financial statements that are not shown directly in the consolidated income statement, consolidated statement of financial position or consolidated cash flow statement are defined and where necessary derived and explained further on their first mention in the notes to the consolidated financial statements. In the Lenzing Group's 2014 Annual Report, the financial key figures used are also collated and presented in the Glossary.

## Use of estimates, assumptions and judgments

In preparing the IFRS consolidated financial statements, the Management Board of Lenzing AG uses estimates, assumptions and judgments. These estimates, assumptions and judgments are based on the circumstances assumed as at the end of the reporting period and can have a significant effect on the presentation of the financial position and financial performance of the Group. They concern the recognition and value of assets and liabilities, contingent assets and liabilities, the reporting of cash flows and income and expenses (including other comprehensive income) and the presentation of disclosures in the notes to the consolidated financial statements.

In the case of the following assumptions about the future and other major sources of estimation uncertainty on the reporting date, there is a considerable risk in the Lenzing Group that they could lead to a material adjustment of the financial position and financial performance – in particular the carrying amounts of assets and liabilities – in the subsequent reporting period:

- The assessment of the recoverability of intangible assets – especially goodwill – and property, plant and equipment – especially at the level of cash-generating units – in impairment tests is based on assumptions about the future. Several assumptions are applied when determining the recoverable amounts in impairment tests. Future cash flows and the discount rate (WACC) play a significant role here. Other assumptions are also included in the assessment (such as in connection with perpetuals). Goodwill and property, plant and equipment at the level of cash-generating units react particularly sensitively to changes in these assumptions because of the large number of estimation parameters. Further detailed information is given in Notes 19, 20 and 3 (under "Impairments").

- When measuring existing defined benefit pension plans and similar obligations – "old severance payment" system and similar systems (e.g. jubilee benefits) – assumptions are made with regard to the actuarial, demographic and financial parameters. In particular, these include the discount rate and future increases in salaries and pensions. Other assumptions are also included in the assessment (such as staff turnover deductions and biometric data). Because of the complexity of the assessment and its longterm nature, these obligations are sensitive to changes in these assumptions. Further detailed information is given in Notes 33 and 3 (under "Obligations from pensions and severance payments" and "Obligations from jubilee benefits").

- The recognition of deferred tax assets under the line item "Deferred tax assets" – provided that there are insufficient taxable temporary differences - is based on the assumption that sufficient taxable income will be generated in the future to utilize existing unused tax loss carryforwards, unused tax credits or other deductible temporary differences. The recognition of deferred tax assets requires a significant estimate regarding the expected date and amount of the future tax results. Further detailed information is given in Notes 32 and 3 (under "Current taxes and deferred taxes [deferred tax assets and liabilities]").

- The recognition of (other) provisions is based on estimates concerning the probability of the future outflow of benefits. In measuring these items, assumptions are also made with regard to the expected amount required to settle the obligations. These uncertainties relate in particular to provisions for restructuring measures – especially severance payments and settlements due to the headcount reduction (such as the number of jobs to be cut in the future and costs to be incurred), provisions for guarantees and warranties (such as when the risks for which provisions have been made will take effect and their amount), provisions for anticipated losses and other risks (such as the future volume of sales or procurement and future prices or costs) and other provisions for legal disputes, which depend largely on the estimate of the outcome of the process and the costs then incurred. Further detailed information is given in Notes 33 and 3 (under "Provisions").

Assumptions and estimates are based on experience and other considerations that the Management Board considers appropriate. However, the amounts that ultimately arise can deviate from these assumptions and estimates if the general conditions assumed develop differently from expectations as at the end of the reporting period. Changes are taken into account when better information is learned and the assumptions are adjusted accordingly.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

When applying the accounting policies, the following significant judgments were made in the Lenzing Group that had a material influence on the amounts in the consolidated financial statements:

- For the derecognition of receivables in connection with factoring agreements, judgment is used concerning the fulfillment of derecognition requirements as defined by IAS 39. Further detailed information is given in Notes 39 (under "Transfer of financial assets [sale of receivables/factoring]") and 3 (under "Financial instruments").

- For the inclusion of Group companies in the scope of consolidation, judgments are made about the nature or method of consolidation, specifically about the existence of control, significant influence or a joint venture, etc., as per IFRS 10, IFRS 11 and IAS 28. Further detailed information is given in Notes 1 (under "Scope of consolidation"), 47 (under "Comments" in connection with the table "Group companies") and 3 (under "Principles of consolidation for subsidiaries" and "Investments accounted for using the equity method").

## Scope of consolidation

The consolidated financial statements of the Lenzing Group include Lenzing AG as the parent company and its subsidiaries, each on the basis of financial statements as at December 31, 2014. If the financial years of consolidated subsidiaries do not end on the reporting date for Lenzing AG on December 31, interim financial statements are prepared for the purposes of consolidation. This is the case for one subsidiary (December 31, 2013: one subsidiary), which has a different reporting date due to local legal requirements (see Note 47).

Investments in associates and joint ventures are accounted for using the equity method.

The number of companies included in the consolidated financial statements developed as follows:

| Development in number of companies included in consolidation | 2014 | | 2013 | |
|---|---|---|---|---|
| | Full consolidation | Equity consolidation | Full consolidation | Equity consolidation |
| **As at 01/01** | **31** | **8** | **35** | **8** |
| Included in consolidation for the first time in reporting period | 1 | 0 | 0 | 0 |
| Deconsolidated in reporting period | 0 | 0 | (4) | 0 |
| **As at 31/12** | **32** | **8** | **31** | **8** |
| Thereof in Austria | 14 | 4 | 14 | 4 |
| Thereof abroad | 18 | 4 | 17 | 4 |

Changes in the scope of consolidation are described in Note 4. A list of all Group companies as at December 31, 2014 can be found in Note 47. The main Group companies operate in the production and marketing of man-made cellulose fibers and, in some cases, of pulp (Segment Fibers).

On the basis of its comprehensive co-determination rights, Lenzing AG controls assets in the wholesale fund GF 82, a special fund under section 20a of the Austrian Investment Fund Act (österreichisches Investmentfondsgesetz – öInvFG). The fund is therefore classified as a structured entity and – as in previous periods – fully consolidated. The securities held in the fund serve to fulfill the fiscal securities coverage of the pension provisions from Austrian pension plans as required under section 14 of the Austrian Income Tax Act (österreichisches Einkommensteuergesetz – öEStG). The material, unchanged risks of the fund are traditional investment risks (especially default and market price risks). At present, the Lenzing Group does not intend to grant the fund financial or other aid or to assist in the procurement of financial aid.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## NOTE 2 Changes in accounting policies

### Overview

In financial year 2014, the Lenzing Group maintained the accounting policies applied in the previous financial year, with the exception of the changes described in this section. The accounting policies are described in detail in Note 3.

### Mandatory changes in accounting policies

### Standards and interpretations applicable from financial year 2014

The following new and amended standards and interpretations were adopted into EU law and became mandatory for the Lenzing Group for the first time in financial year 2014:

| Standards/interpretations | | Publication by the IASB | Mandatory application according to IASB for financial years from | Adoption by the EU as at 31/12/2014 |
|---|---|---|---|---|
| IFRS 10 | Consolidated Financial Statements (mandatory application according to the European Commission from January 1, 2014) | 12/05/2011 | 01/01/2013 | Yes |
| IFRS 11 | Joint Arrangements (mandatory application according to the European Commission from January 1, 2014) | 12/05/2011 | 01/01/2013 | Yes |
| IFRS 12 | Disclosure of Interests in Other Entities (mandatory application according to the European Commission from January 1, 2014) | 12/05/2011 | 01/01/2013 | Yes |
| IFRS 10, 11, 12 | Transition guidance (amendments to IFRS 10, IFRS 11 and IFRS 12 - mandatory application according to the European Commission from January 1, 2014) | 28/06/2012 | 01/01/2013 | Yes |
| IAS 27 | Separate Financial Statements (mandatory application according to the European Commission from January 1, 2014) | 12/05/2011 | 01/01/2013 | Yes |
| IAS 28 | Investments in Associates and Joint Ventures (mandatory application according to the European Commission from January 1, 2014) | 12/05/2011 | 01/01/2013 | Yes |
| IAS 32 | Offsetting Financial Assets and Financial Liabilities | 16/12/2011 | 01/01/2014 | Yes |
| IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets | 29/05/2013 | 01/01/2014 | Yes |
| IFRS 10, 12, IAS 27 | Investment Entities | 31/10/2012 | 01/01/2014 | Yes |
| IAS 39 | Novation of Derivatives and Continuation of Hedge Accounting | 27/06/2013 | 01/01/2014 | Yes |

The new and amended standards and interpretations shown above have the following effects on the financial position and financial performance of the Lenzing Group as at December 31, 2014:

Three new IFRSs (10, 11 and 12) were published in May 2011 in connection with the presentation of IFRS consolidated financial statements and IFRS separate financial statements. IFRS 10 introduces a uniform control model for determining whether an investee should be consolidated. It specifies that an investor controls an investee when the investor is exposed to or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This new definition does not result in any changes in the type of consolidation for the consolidated companies of the Lenzing Group and therefore also does not result in any changes in the current accounting treatment of these consolidated companies. Neither has the scope of consolidation changed.

Under IFRS 11, the structure of the joint arrangement, while still representing an important aid to decision-making, is no longer the main factor for determining the type of joint arrangement and thus for the subsequent accounting treatment. The Group's interest in a joint operation that constitutes an arrangement whereby the parties have rights to the assets and obligations for the liabilities is accounted for on the basis of the Group's interest in these assets and liabilities. All of the Group's shares in a joint venture that constitutes an arrangement whereby the parties have rights to the net assets are accounted for using the equity method according to IAS 28. As the Lenzing Group already used the equity method for its joint ventures and no other material changes occurred, this has no effect.

IFRS 12 combines all disclosure requirements for an entity's interests in subsidiaries, joint arrangements (joint operations and joint ventures), associates and unconsolidated structured entities in one standard. It gives rise to changes for the Lenzing Group, including with regard to disclosures on companies accounted for using the equity method, on underlying judgments, and on the assumptions for control, significant influence or a joint arrangement. In addition, the disclosures on material non-controlling interests were expanded (see in particular Notes 3, 21, 29 and 47).

The amendments to IAS 36 (Recoverable Amount Disclosures for Non-Financial Assets) were voluntarily adopted early as at December 31, 2013. The amendments to IAS 36 resulted in extended disclosures in the notes on non-financial assets for which an impairment loss or a reversal of an impairment loss was recognized (see Notes 19 and 20 in particular).

The other new or amended standards and interpretations that are applicable from January 1, 2014 do not result in any significant changes in the financial statements of the Lenzing Group. The accounting policies and measurement and presentation methods applied in the consolidated financial statements therefore remained largely unchanged in comparison to the last consolidated annual financial statements of the Lenzing Group as at December 31, 2013.

## Standards and interpretations that are already published but not mandatory until subsequent financial years

The following new and amended standards and interpretations that had already been published by the IASB when the consolidated financial statements were prepared were not yet mandatory for the Lenzing Group for financial years beginning on or before January 1, 2014:

| Standards/interpretations | | Publication by the IASB | Mandatory application according to IASB for financial years from | Adoption by the EU as at 31/12/2014 |
|---|---|---|---|---|
| IFRIC 21 | Levies (mandatory application according to the European Commission from June 17, 2014) | 20/05/2013 | 01/01/2014 | Yes |
| IAS 19 | Defined Benefit Plans: Employee Contributions (mandatory application according to the European Commission from February 1, 2015) | 21/11/2013 | 01/07/2014 | Yes |
| Various | Amendment of a number of IFRSs as a result of the 2010-2012 improvement process (mandatory application according to the European Commission from February 1, 2015) | 12/12/2013 | 01/07/2014 | Yes |
| Various | Amendment of a number of IFRSs as a result of the 2011-2013 improvement process (mandatory application according to the European Commission from January 1, 2015) | 12/12/2013 | 01/07/2014 | Yes |
| IFRS 14 | Regulatory Deferral Accounts | 30/01/2014 | 01/01/2016 | No |
| IFRS 11 | Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations | 06/05/2014 | 01/01/2016 | No |
| IAS 16, 38 | Property, Plant and Equipment, Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization | 12/05/2014 | 01/01/2016 | No |
| IFRS 15 | Revenue from Contracts with Customers | 28/05/2014 | 01/01/2017 | No |
| IAS 16, 41 | Property, Plant and Equipment, Agriculture: Bearer Plants | 30/06/2014 | 01/01/2016 | No |
| IFRS 9 | Financial Instruments | 24/07/2014 | 01/01/2018 | No |
| IAS 27 | Separate Financial Statements: Equity Method in Separate Financial Statements | 12/08/2014 | 01/01/2016 | No |
| IFRS 10, IAS 28 | Consolidated Financial Statements: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 11/09/2014 | 01/01/2016 | No |
| Various | Amendment of a number of IFRSs as a result of the 2012-2014 improvement process | 25/09/2014 | 01/01/2016 | No |
| IFRS 10, 12, IAS 28 | Investment Entities: Application of the Investment Entities Exceptions | 18/12/2014 | 01/01/2016 | No |
| IAS 1 | Disclosure Initiative | 18/12/2014 | 01/01/2016 | No |

The new and amended standards and interpretations shown above were not adopted early by the Lenzing Group; they are expected to have the following effects on the financial position and financial performance of the Lenzing Group in future financial years:

- **IFRS 9 and IFRS 7:** IFRS 9 (Financial Instruments) stipulates changes with regard to the categorization and measurement of financial instruments, impairment of financial assets and regulations for hedge accounting. As things stand, the Lenzing Group expects the application of IFRS 9 to mainly affect financial assets (especially their categorization and in isolated cases their measurement). Due to the conversion to the uniform expected credit loss model, bad debt provisions for financial instruments (especially for trade receivables) will tend to be recognized earlier in future. Simplifications in hedge accounting are also expected. IFRS 7 (Financial Instruments: Disclosures), revised in the course of the release of IFRS 9, will result in changed or expanded disclosures in the notes, specifically regarding defaults of receivables, hedge accounting, and the presentation of financial instrument categories.

- **IFRS 15:** IFRS 15 (Revenue from Contracts with Customers) stipulates, according to a principle-based model, when and what amount of revenue must be recognized and requires disclosures in the notes on revenue obtained from contracts with customers. The Lenzing Group is currently analyzing whether this will result in changes. As things stand, the Lenzing Group does not expect the adoption of IFRS 15 to result in any significant changes to accounting policies concerning the date and amount of the recognition of revenue from customer contracts. In particular, changed or expanded disclosures in the notes concerning revenue will be required.

- **Others:** There are a number of other standards, amendments and interpretations that either are not relevant to the Lenzing Group or do not have any significant impact on its earnings, assets, liabilities or cash flows.

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

### Voluntary changes in accounting policies

Segment Engineering was renamed to Segment Lenzing Technik (see Note 6). There were no other voluntary changes to accounting policies.

## NOTE 3 Accounting policies

### Presentation

The consolidated statement of financial position differentiates between current and non-current assets and liabilities based on their maturities. Deferred tax assets and liabilities are shown as non-current assets and liabilities. The consolidated income statement is structured in accordance with the nature of expense method. The consolidated cash flow statement is prepared using the indirect method. In the consolidated cash flow statement, interest paid and received, income taxes paid and dividends received are allocated to cash flow from operating activities. Dividends paid are reported in the cash flow from financing activities.

## Measurement

In the case of intangible assets, property, plant and equipment, loans granted, inventories, receivables and liabilities, historical cost represents the fundamental basis for measurement.

In the case of available-for-sale financial assets and derivative financial instruments, the basis for measurement is the fair value as at the reporting date. Plan assets in the context of defined benefit pension obligations are also measured at fair value as at the reporting date. Assets and liabilities from company acquisitions are measured at fair value as at the acquisition date. Assets classified as held for sale are measured at the lower of their carrying amount and their fair value less costs of disposal.

## Principles of consolidation for subsidiaries

Subsidiaries are companies under the control of the parent company. An investee (including structured entities) is controlled when the parent company:

- can exercise power over the investee,
- is exposed to or has rights to variable returns from its involvement in the investee and
- has the ability to affect the amount of those returns through its power over the investee.

Control is generally assumed when Lenzing AG holds more than 50% of the voting rights and there are no indications to the contrary. Subsidiaries are included in the consolidated financial statements by way of full consolidation. The inclusion begins when control is obtained and ends when it is lost.

The acquisition of subsidiaries is accounted for using the acquisition method. Under this method, the assets acquired and the liabilities assumed (including contingent liabilities) are recognized at fair value as at the acquisition date. Goodwill corresponds to the surplus of the sum of the consideration transferred, the amount of non-controlling interests in the acquiree and, if applicable, the fair value of the equity interest previously held in the acquiree by the Lenzing Group, over the net assets as at the acquisition date. For every acquisition, the Lenzing Group makes an individual decision as to whether the non-controlling interests in the acquiree shall be recognized at fair value or on the basis of the proportionate share in the net assets of the acquired subsidiary. Any negative goodwill that arises is recognized as income after a reassessment of the measurement of net assets. Incidental acquisition costs are recognized in profit or loss in the period in which they arise.

On addition, non-controlling interests are measured either at fair value or at the corresponding share of the recognized carrying amounts of net assets. They are reported in equity and in income as “Non-controlling interests”.

The capital shares attributable to the non-controlling shareholders of certain companies (currently Lenzing (Nanjing) Fibres Co., Ltd.) are reported outside equity. Owing to the limitation of the companies under company law, these capital shares do not constitute equity under IFRS. Initial measurement is at fair value, which generally corresponds to the fair value of the non-controlling shareholder's contribution at the time of the contribution. In subsequent measurement, the amount recognized in liabilities on initial measurement is increased by the gain accrued/reduced by the loss incurred up to the measurement date. In the statement of financial position, these third-party capital shares are reported in the "Puttable non-controlling interests" item under liabilities or in the "Other current assets" item under assets. The change in net assets attributable to those non-controlling interests that is recognized in profit or loss is reported in the item "Allocation of profit or loss to puttable non-controlling interests" in the income statement. In addition, any amounts recognized directly in equity are included in the measurement of the liability/receivable. Distributions of profits to non-controlling shareholders reduce the liability/increase the receivable.

Changes in shares in subsidiaries already controlled are treated as transactions between owners. The difference between the consideration and the pro rata carrying amount of non-controlling interests is recognized directly in retained earnings.

If control over a subsidiary is lost, the remaining interest in the former subsidiary is measured at fair value through profit or loss.

In the case of an acquisition achieved in stages that results in control being obtained, the difference between the carrying amount and the fair value as at the date of initial full consolidation is recognized in profit or loss.

Material assets and liabilities and expenses and income resulting from transactions between consolidated companies are eliminated on consolidation. Material intra-group profits resulting from trade relationships between consolidated companies are eliminated if the assets concerned are still on stock as at the reporting date.

## Currency translation

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 functional currency is the main currency for the economic activity of the company in question. Except for PT. South Pacific Viscose, the functional currency is the currency of the country or region where the respective subsidiary is based. The functional currency for PT. South Pacific Viscose is the US dollar.

Exchange rate gains or losses from transactions by consolidated companies in a currency other than the functional currency are recognized in profit or loss. Monetary items of consolidated companies that are not denominated in the functional currency are converted using the closing rate on the reporting date.

In the course of consolidation, the assets and liabilities of subsidiaries are converted from the functional currency to the reporting currency (euro) using the closing rate on the reporting date. Revenue and other income and expenses are converted at the average rate for the month in which the income and expenses arise. Exchange differences resulting from the use of different exchange rates are recognized as a separate item in other comprehensive income. This item also includes exchange differences on receivables that represent a part of the net investment in a foreign operation.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

In the case of company acquisitions, the carrying amounts of the assets acquired and the liabilities assumed are adjusted to their fair values as at the acquisition date. These adjustments and the goodwill from company acquisitions are treated as assets/liabilities of the acquired subsidiary and are thus subject to currency translation as part of consolidation.

The following key exchange rates were used for currency translation into the reporting currency (euro):

| Exchange rates for key currencies | | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| Unit | Currency | | Average | Reporting date | Average | Reporting date |
| 1 EUR | USD | US Dollar | 1.2160 | 1.3285 | 1.3783 | 1.3281 |
| 1 EUR | GBP | British Pound | 0.7823 | 0.8061 | 0.8364 | 0.8493 |
| 1 EUR | CZK | Czech Koruna | 27.7280 | 27.5360 | 27.4800 | 25.9800 |
| 1 EUR | CNY | Renminbi Yuan | 7.5442 | 8.1857 | 8.3555 | 8.1646 |
| 1 EUR | HKD | Hong Kong Dollar | 9.4340 | 10.3025 | 10.6886 | 10.3016 |
| 1 EUR | INR | Indian Rupee | 77.1686 | 81.0406 | 85.3040 | 77.9300 |

## Non-current assets and liabilities held for sale and disposal groups

An entity shall classify a non-current asset (or disposal group and directly associated liabilities) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Immediately before their classification as held for sale, the assets (or parts of a disposal group and directly associated liabilities) are measured in accordance with the Group's accounting policies. After the reclassification, non-current assets (or disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs of disposal. Impairment losses from the initial classification as held for sale and subsequent increases and decreases in value in the context of measurement are recognized in profit or loss. Intangible assets and property, plant and equipment classified as held for sale are no longer amortized/depreciated on a systematic basis.

## Discontinued operations

Discontinued operations are parts of a company that represent a separate major operation or geographic area of operations and that have been sold or are held for sale, or subsidiaries that are acquired solely for the purpose of resale. Operations are classified as discontinued operations on disposal or at an earlier date if they fulfill the criteria for discontinued operations. If operations are classified as discontinued operations, then the statement of comprehensive income and the statement of cash flows must be presented as if these operations had been classified as discontinued operations since the beginning of the comparative period.

## Intangible assets

Acquired intangible assets are reported at cost less accumulated amortization as at the reporting date if they have a limited useful life. The option to apply the revaluation model is not exercised. The cost of production comprises all costs attributable to the production process (direct costs and overheads), as well as pro rata borrowing costs in the case of qualifying assets. Amortization, depreciation, impairment, and reversals of impairment losses attributable to the financial year are reported under the item "Amortization of intangible assets and depreciation of property, plant and equipment" in the income statement.

Development costs from internally generated intangible assets are capitalized if they fulfill the criteria of IAS 38. Otherwise, the development costs concerned are recognized as an expense. Research costs are generally recognized as an expense.

Depreciation is calculated using the straight-line method on the basis of the estimated useful lives. The estimated useful lives of the most important assets are as follows:

### Useful lives for intangible assets

| | Years |
|---|---|
| Software/computer programs | 3 to 4 |
| Licenses and other intangible assets | |
| Purchased | 4 to 20 |
| Developed internally | 5 to 15 |

Assets acquired second-hand are depreciated over their remaining useful lives. Goodwill, trademark rights and other intangible assets with indefinite useful lives are amortized only if they are impaired.

## Property, plant and equipment

Property, plant and equipment is reported at cost less accumulated depreciation as at the reporting date. The option to apply the revaluation model is not exercised. The cost of production comprises all costs attributable to the production process (direct costs and overheads), as well as pro rata borrowing costs in the case of qualifying assets.

Amortization, depreciation, impairment, and reversals of impairment losses attributable to the financial year are reported under the item "Amortization of intangible assets and depreciation of property, plant and equipment" in the income statement.

Depreciation is calculated using the straight-line method on the basis of the estimated useful lives. The estimated useful lives of the most important 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 |

Assets acquired second-hand are depreciated over their remaining useful lives. Land is depreciated only if it is impaired. Major conversions are capitalized, whereas regular maintenance work, repairs and minor conversions are recognized as expenses at the time they are incurred.

## Leases

If all material risks and rewards associated with ownership of a leased asset are transferred to the lessee, then the lease involved is a finance lease. All other leases are classified as operating leases.

In the case of finance leases in which the Lenzing Group is the lessee, the leased assets are capitalized at the fair value of the asset or, if lower, the present value of the future minimum lease payments. Depreciation is recognized over the economic life of the relevant item of property, plant and equipment or over the term of the lease if this is shorter. The assets resulting from the leases are capitalized under property, plant and equipment, while the payment obligations are recognized in liabilities to other lenders under non-current and current financial liabilities. Each lease installment is split into an interest component and a repayment component in order to keep the interest charged on the liability at a constant level. The interest component is recognized in profit or loss.

The Lenzing Group does not currently recognize any finance leases as a lessor.

In the case of operating leases, the agreed lease payments are recognized on a straight-line basis over the lease term as expenses (if the Lenzing Group is the lessee) or income (if the Lenzing Group is the lessor) in the income statement.

## Impairments for intangible assets, property, plant and equipment, investments accounted for using the equity method and cash-generating units

Cash-generating units to which goodwill is allocated and intangible assets with indefinite useful lives are tested for impairment at least once a year, or more frequently if appropriate. The annual impairment tests are performed in the fourth quarter of each financial year. All other intangible assets, property, plant and equipment and investments accounted for using the equity method are tested for impairment if there is evidence to suggest that they are impaired.

An asset or cash-generating unit is impaired if its recoverable amount is lower than its carrying amount. The recoverable amount is the higher of the value in use and the fair value less costs of disposal. The value in use corresponds to the present value of estimated future cash flows assuming a market interest rate that is adjusted for the specific risks of the asset. The cash flows are derived from current planning. To determine the fair value less costs of disposal, any recent market transactions are taken into account. If no such transactions can be identified, a suitable measurement model is applied.

When determining the recoverable amount, assumptions about future developments are made, particularly with regard to the development of production and sales volumes, which may not actually materialize. Furthermore, estimates are made with regard to the conditions of a potential sale of these assets on the market.

If the recoverable amount for an asset cannot be determined, the asset is included in a cash-generating unit. Cash-generating units are the groups of assets at the lowest level that generate cash flows independently of other assets. Goodwill and trademark rights with indefinite useful lives are allocated to the cash-generating units that are expected to benefit from synergies resulting from the relevant company acquisition and that represent the lowest level of management control of cash flows within the Group. In the Lenzing Group, these are individual production sites in particular.

In the case of cash-generating units to which goodwill has been allocated and cash-generating units with trademark rights that have an indefinite useful life, the Lenzing Group initially calculates the recoverable amount on the basis of fair value less costs of disposal. The fair value less costs of disposal of cash-generating units to which goodwill has been allocated and cash-generating units with trademark rights that have an indefinite useful life is derived based on budgets and cash flow projections approved by the Management Board for the next four years on a post-tax basis. In justified exceptions, the cash flow projections are extended to up to five years (2013: up to six years). This is the case for cash-generating units where there are plans for increased capital investments whose cash flow potential will not be fully reflected in the cash flows and who therefore will not reach the "steady state" until after four years. Based on the assumptions of the past year, perpetuals taking account of a sustainable long-term growth rate of 0.7% to 1.1% (December 31, 2013: 0.9% to 1.3%) are anticipated after the detailed planning period. The estimate used for the sustainable long-term growth rate is half of the inflation rate for the next few years in the relevant country that is expected by an international economic research center. This value usually tends to offset general inflation. The planned/projected cash flows are discounted to their present value using a discounted cash flow method. Fair value measurement is classified in full in Level 3 of the fair value hierarchy, since key input factors (particularly cash flows) cannot be observed on the market. The discount rate used is a composite rate (weighted average cost of capital – WACC) combining the average interest rate for debt capital and the anticipated return on the equity employed and calculated on an individual basis using the capital asset pricing model (CAPM). This discount rate reflects current market assessments and the risks specific to the cash-generating units concerned. For the 4th quarter 2014 WACCs after taxes between 7.0% and 10.4% were used (as at December 31, 2013: between 7.6% and 11.7%).

The WACCs were mainly determined based on externally available capital market data from comparable companies (particularly for determining the risk premium). Planning and projections of free cash flows (freely available cash flows) are based in particular on internal assumptions with regard to anticipated future sales prices and volumes (revenue development) and the costs required for this (particularly commodities and energy, as well as labor and taxes), taking into account the expected market environment and market positioning. In addition, anticipated investments and the changes in working capital (inventories plus operating receivables less operating liabilities) also play a role. 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.

If the recoverable amount of the asset or cash-generating unit is lower than its carrying amount, an impairment loss is recognized in profit or loss in the amount of the difference. Impairment losses are recognized in the income statement under the item “Amortization of intangible assets and depreciation of property, plant and equipment”.

Impairment losses on cash-generating units to which goodwill is allocated firstly reduce the carrying amount of goodwill. Any further impairment losses reduce the carrying amounts of the cash-generating unit’s assets.

If the impairment ceases to apply, it is reversed (written up) to fair value but at most to the value derived by applying the amortization/depreciation schedule to the original cost. Reversals of impairment losses are recognized in the income statement under the item “Amortization of intangible assets and depreciation of property, plant and equipment”. Impairment losses on goodwill are not reversed again.

## Investments accounted for using the equity method

Investments accounted for using the equity method relate to investments in associates and joint ventures. Investments in associates relate to shares in companies at which the Lenzing Group can exert significant influence over financial and operating policies. Significant influence is assumed when the share of capital is between 20% and 50%. 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.

Investments in associates and joint ventures are accounted for using the equity method. Under this method, acquired investments are initially recognized at cost The measurement of the equity holding is then increased/decreased by pro rata changes in equity. The goodwill relating to an associate or joint venture is included in the carrying amount of the investment and is not amortized on a systematic basis.

Otherwise, similar principles of consolidation apply as for subsidiaries

## Financial assets and securities

The securities mainly consist of bonds, but also include equity shares and investment funds. The fair values of bonds are derived from their current quoted prices and change in particular according to changes in market interest rates and the credit rating of the bond’s debtors. The fair values of shares are derived from the current quoted prices. The fair values of investment funds are derived from their current notional values. All securities are assigned to the “available-for-sale financial assets” category. The change in unrealized fair value measurement, less deferred taxes, can therefore be seen in other comprehensive income. Non-current securities are not intended to be sold within one year.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is objective evidence of impairment. Any existing impairment is recognized in profit or loss. Reversals of impairment losses are recognized in other comprehensive income for equity instruments and in profit or loss for debt instruments.

If there is no market price on an active market and their market price cannot be measured reliably due in particular to a lack of reliable future cash flows or is of minor importance, investments in unconsolidated affiliated companies, other equity investments and related derivative financial instruments are measured at the lower of cost and cost less impairment.

Loans are recognized at amortized cost or, if they are impaired, at their lower fair value.

### Current taxes and deferred taxes (deferred tax assets and liabilities)

Current taxes and deferred tax assets and liabilities relate to income taxes.

Current taxes are the expected tax liabilities or tax receivables on the taxable income of Group companies for the financial year on the basis of the applicable tax rates in the relevant country and all adjustments of tax liabilities for earlier years.

Deferred tax assets and liabilities are calculated for the respective assets and liabilities on the basis of temporary differences between the values in the consolidated financial statements and the values used for calculating tax. In addition, the tax benefit from tax loss carryforwards and unused tax credits must be taken into account in the context of deferred taxes if it is likely to be used. This is done on the basis of the tax rates that will be applicable in the year in which the differences are expected to reverse, according to the legal situation as at the reporting date. If it is likely that deferred tax assets – particularly on loss carryforwards – will be recovered, the values are maintained; otherwise they are written down. No deferred taxes are accrued on permanent differences. Deferred taxes are accrued in the case of elimination of intra-group profits.

Deferred tax assets and liabilities are reported on a net basis in the Group if there is a right to offset the taxes and the taxes relate to taxable entities within the same tax group.

Lenzing AG and the subsidiaries included in the tax group agreement are members of the tax group concluded on September 25, 2009 between B&C Industrieholding GmbH as the group parent and Lenzing AG and other subsidiaries of Lenzing AG as group members in accordance with section 9 of the Austrian Corporation Tax Act (österreichisches Körperschaftsteuergesetz – öKStG).

As part of group taxation, tax gains and losses are offset between group members. Due to their joint tax assessment, deferred tax assets and liabilities of group members are offset. Future tax liabilities from offsetting losses of foreign subsidiaries are recognized in the consolidated financial statements without being discounted.

The group and tax equalization agreement requires Lenzing AG to pay a tax allocation in the amount of the corporation tax attributable to the taxable profit of the company and the subsidiaries included in the tax group.

Any domestic and foreign withholding taxes deductible from the overall group result at the group parent and minimum corporation taxes passed on reduce the tax allocation to be paid by Lenzing AG.

If current losses/loss carryforwards caused by the group parent B&C Industrieholding GmbH itself can be offset against positive earnings of Lenzing AG's tax group in the year of assessment, then the tax allocation to be paid by Lenzing AG is reduced. The reduction of the tax allocation is equivalent to 50% of the applicable corporation tax rate (therefore currently 12.5%) for the group parent's own current losses/loss carryforwards offset against positive earnings in a year of assessment of B&C Industrieholding GmbH.

Tax losses of Lenzing AG including the subsidiaries involved are kept on record and offset against future tax gains. An equalization payment is agreed for losses that are not offset on termination of the contract.

The Lenzing Group includes the effects of uncertain tax positions in the calculation of current and deferred taxes. Affected tax claims are recognized at the expected amount of reimbursement in cases in which the claim is sufficiently certain. The tax returns of the Lenzing Group companies are regularly reviewed by the tax authorities. Taking account of a number of factors, including interpretations, commentaries and legal decisions relating to the respective tax jurisdiction as well as past experience, appropriate provisions have been recognized for possible future tax obligations as far as can be seen. Uncertain tax positions are assessed on the basis of estimates and assumptions of future events. In future, new information can become available that causes the Group to change its assumptions regarding the appropriateness of the tax positions. Such changes will affect tax expense in the period in which they are determined.

## Trade receivables and other assets

With the exception of derivative financial instruments, which are accounted for at market value, trade receivables and other assets are measured at amortized cost. Non-interest-bearing non-current receivables are discounted using the effective interest method. Bad debt provisions are recognized for those items likely to be deemed uncollectible or only partly collectible. Receivables denominated in a foreign currency are converted using the closing rate. All trade receivables are classified as current assets.

## Construction contracts

If the result of a construction contract can be reliably estimated, the revenue and costs are recognized in line with the stage of completion on the reporting date (percentage-of-completion method). The stage of completion is calculated on an input-oriented basis from the ratio of the contract costs incurred to date to the estimated total contract costs (cost-to-cost method). The progress of projects is monitored on an ongoing basis. Deviations of any kind in the overall contract are taken into account in measurement.

If the result of a construction contract cannot be reliably estimated, contract revenue is recognized only in the amount of the contract costs incurred that are likely to be collectible. Contract costs are recognized as an expense in the period in which they are incurred.

If it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Receivables from contract customers from construction contracts are reported under "Trade receivables". Contract revenue impacting income on a pro rata basis is accounted for as revenue. If an excess of advance payments arises, this is reported under other liabilities.

## Inventories

Inventories are measured at the lower of cost and net realizable value at the reporting date. The cost of production comprises all costs attributable to the production process (direct costs and overheads). Net realizable value corresponds to the expected selling price less attributable costs to sell incurred prior to the sale, plus any costs of completion yet to be incurred. When the reasons for a write-down have ceased to exist, the write-down is reversed accordingly.

The cost of raw materials and supplies is calculated using the weighted average cost method. The change in inventories of finished goods and work in progress is shown in the item of the same name in the income statement.

## Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, amounts payable on demand, checks and short-term time deposits with banks. They are measured at their nominal amounts. Besides cash and cash equivalents, the liquid funds item relevant to the cash flow statement only includes liquid marketable securities with a remaining term of less than three months that are subject to minor fluctuations in value.

## Equity instruments issued

Financial instruments issued by the Lenzing Group are classified as financial liabilities or as equity depending on the economic substance of the contractual agreement. The equity item subsumes the equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting the liabilities. This relates to funds provided to the entity by the owners.

Issue costs are those costs that would not have been incurred if the equity instrument had not been issued. Gains and losses from the issue, sale, repurchase or cancellation of equity instruments are recognized directly in equity less any tax effects.

## Emission certificates

Emission certificates are capitalized at fair value as at the date when they are allocated. The difference between the fair value and the amount spent by the company to acquire the emission certificates is reported in the "Government grants" item. At each reporting date, a provision is recognized for the certificates used up until this date. If the used certificates are covered by the certificates held by the company as at this reporting date, the provision is measured at the asset value recognized for these certificates. If the used certificates exceed the certificates held, the provision is measured at the fair value of the certificates (to be purchased subsequently) as at the relevant reporting date. The deferred income item attributable to the certificates used up until this reporting date is reversed in profit or loss.

## Government grants

Investment grants are reported as liability items and recognized in profit or loss as income from the release of investment grants, distributed on a straight-line basis in line with the useful lives of the subsidized investments. The recognition and measurement of grants relating to emission certificates are described in the section "Emission certificates".

Government grants for reimbursements are recognized as other income in the period in which the relevant costs are incurred, except if the inflow of the grant depends on conditions that are not yet sufficiently likely to occur.

## Obligations from pensions and severance payments

Obligations from employee pensions and severance payments – "old severance payment" system and similar systems – are considered post-employment benefits under IFRS. A distinction is made between defined benefit plans and defined contribution plans.

Under defined benefit plans, the Lenzing Group's obligation is to provide the agreed benefits. In this case, actuarial risk and investment risk are chiefly assumed by the Lenzing Group. Obligations from defined benefit plans are calculated using the projected unit credit method. An actuarial valuation is performed at each reporting date, with the anticipated benefits distributed over the entire period of employment. Future increases in salaries and pensions are taken into account. Remeasurements of the net liability (actuarial gains and losses) are recognized in full in other comprehensive income in the period in which they arise. Past service cost is recognized immediately in profit or loss.

The obligations from defined benefit plans recognized in the consolidated statement of financial position represent the present value of the defined benefit obligation. The fair value of existing plan assets is deducted from this. The remaining obligations after deducting plan assets are reported under provisions. Net interest expense from defined benefit plans (expenses from the interest accruing on the obligations and the return on plan assets) is recognized under personnel expenses. All other gains and losses, with the exception of remeasurements of the net liability, are also recognized in personnel expenses. Remeasurements of the net liability (relating to actuarial gains and losses and the return on plan assets not included in net interest expense, excluding amounts included in interest income) are included in other comprehensive income.

The main obligations from defined benefit plans consist of obligations for pensions and severance payments at Austrian companies of the Lenzing Group. A discount rate derived from high-quality fixed-income corporate bonds with at least an AA rating according to the standard of an international actuary was used for these obligations. Bonds with significantly higher or lower interest rates than the other bonds in their risk class ("statistical outliers") were not included here. The currency and terms of the bonds from which the rate is derived are based on the currency and expected terms of the obligations to be settled. The estimated salary and pension increases that are also considered realistic for the future were derived from an examination of the averages over the past years. Rates of employee turnover were recognized for each company depending on the composition of the workforce and employees' length of service. The retirement age used for the calculation is based on the respective legal provisions. In the other countries, country-specific assumptions are used in determining the discount rate, salary increases, employee turnover rates and the retirement age.

Under defined contribution plans, the Lenzing Group's obligation is only to pay agreed contributions into a fund. In this case, actuarial risk and investment risk are chiefly assumed by the employee. Therefore, no provisions or other accruals are recognized after the agreed contributions have been paid.

## Obligations from jubilee benefits

Obligations from jubilee benefits for employees (long-service bonuses) are considered other long-term employee benefits under IFRS. Obligations from jubilee benefits are calculated using the projected unit credit method, with the anticipated benefits distributed over the entire period of employment. Future salary increases are taken into account. Remeasurements of the net liability (actuarial gains and losses) and past service cost are recognized immediately in profit or loss.

The obligations from jubilee benefits recognized in the consolidated statement of financial position represent the present value of the obligation and are reported under provisions. Net interest expense from jubilee benefits (expenses from the interest accruing on the obligations) is recognized under personnel expenses. All other gains and losses, including remeasurements of the net liability (relating to actuarial gains and losses), are also recognized in personnel expenses.

The main obligations from jubilee benefits are at Austrian companies of the Lenzing Group. A discount rate derived from high-quality fixed-income corporate bonds with an AA rating according to the standard of an international actuary was used for these obligations. Bonds with significantly higher or lower interest rates than the other bonds in their risk class ("statistical outliers") were not included here. The currency and terms of the bonds from which the rate is derived are based on the currency and expected terms of the obligations to be settled. The estimated salary increases that are also considered realistic for the future were derived from an examination of the averages over the past years. Rates of employee turnover were recognized for each company depending on the composition of the workforce and employees' length of service. In the other countries, country-specific assumptions are used in determining the discount rate, employee turnover rates and salary increases.

## Provisions

Provisions are recognized if there are legal or constructive obligations to third parties that are based on past business transactions or events and are likely to result in an outflow of cash or other assets that can be reliably determined. They are stated at the anticipated settlement amount with due regard to all identifiable risks attached. The amount of a provision corresponds to the best estimate of the settlement amount of the present obligation as at the reporting date. The measurement of provisions is based on historical data, current cost and price information, and estimates/appraisals by internal and external experts.

Restructuring provisions are recognized if there is a detailed formal restructuring plan and a valid expectation that the restructuring will be implemented has been raised in those affected.

The assumptions on which the provisions are based are reviewed on an ongoing basis. The actual values may deviate from the assumptions made if the general conditions develop differently from expectations as at the end of the reporting period. Changes are taken into account in profit or loss when better information is learned and the premises are adjusted accordingly. Reversals of provisions are reported as income in the expense items that were originally debited when the provision was recognized.

Long-term provisions are discounted if the effect of discounting is material and the discounting period can be reliably estimated.

The provisions item also includes accruals. Compared to provisions in a narrower sense, accruals are generally certain in terms of their existence and involve only an insignificant level of risk with regard to the amount and timing. Accruals are reported separately in the development of provisions. If they constitute financial instruments, they are treated as financial liabilities accounted for at amortized cost.

## Liabilities

With the exception of derivative financial instruments, which are accounted for at market value, liabilities are measured at amortized cost. Liabilities denominated in a foreign currency are converted using the closing rate.

Non-current liabilities with non-market interest rates are discounted using the effective interest method.

## Contingent liabilities

Contingent liabilities are possible obligations or present obligations that arise from past events for which an outflow of resources is not considered probable. If, in extremely rare cases, an existing liability cannot be recognized as a provision in the consolidated statement of financial position because a reliable estimate of the liability is not possible, this also constitutes a contingent liability. Contingent liabilities are not recognized in the consolidated statement of financial position, but are disclosed in the notes to the consolidated financial statements.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## Sales and revenue recognition and causation of expenses

Revenue comprises all income resulting from the typical business activities of the Lenzing Group. This includes income from product sales (particularly sales of man-made cellulose fibers in the Segment Fibers) and services provided (particularly from mechanical and plant engineering in Segment Engineering), less trade discounts granted or expected and other sales deductions not including sales tax. Any other operating revenue is recognized as other operating income.

Income is recognized when ownership of the products has been transferred to the customer (thus including transfer of risks) or the service has been provided, the amount of the income/ the associated costs can be reliably determined and it is probable that the economic benefits from the transaction will arise.

The Segment Fibers mainly sells man-made cellulose fibers, as well as products such as sodium sulfate, black liquor and pulp. Income is recognized when ownership of the products has been transferred to the customer (thus including transfer of risks), the amount of the income/ the associated costs can be reliably determined and it is probable that the economic benefits from the transaction will arise.

Segment Lenzing Technik operates in the field of mechanical and plant engineering and performs engineering services. A significant portion of its income results from construction contracts. Income from construction contracts is recognized based on the stage of completion in line with the cost-to-cost method (see the section "Construction contracts" above).

The change in inventories of finished goods and work in progress serves to neutralize expenses for goods that were still held in inventory as at the reporting date. Work performed by the Group and capitalized serves to neutralize expenses to be capitalized as part of the cost of non-current assets.

Operating expenses are recognized at the time when the related service is utilized or when they are caused.

Dividends are generally taken into account once the legal claim to payment has arisen. Interest and other financial expenses and income are recognized as income or expenses on an accrual basis using the effective interest method.

## Earnings figures

EBITDA (earnings before interest, taxes, depreciation on property, plant and equipment and amortization of intangible assets and before income from the release of investment grants or “earnings before interest, taxes, depreciation and amortization”) and, particularly, EBITDA before restructuring are important key figures for measuring performance in the Lenzing Group. One-off effects from restructuring are significant income or expenses that do not regularly recur in terms of their type or amount, particularly in connection with business combinations, impairments and restructuring and similar measures. EBITDA (after restructuring) is reported separately in the consolidated income statement and therefore defined and calculated in detail there. EBITDA before restructuring is used as the segment result in the context of segment reporting (see Note 6). In addition, EBIT (earnings before interest and taxes) is also of particular interest. EBIT (after restructuring) is reported separately in the consolidated income statement and therefore defined and calculated in detail there.

The financial result is the total of income from investments accounted for using the equity method and income from non-current and current financial assets plus financing costs. EBT (earnings before taxes) is profit/loss for the year before income tax expense. Profit/loss for the year corresponds to profit after taxes or net profit/loss. The precise definition and calculation of these key figures can be found in the consolidated income statement.

## Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost. 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. They are capitalized in the item “Work performed by the Group and capitalized” and the associated asset investment account, and are written down in the item “Amortization of intangible assets and depreciation of property, plant and equipment”.

All other borrowing costs are recognized in the financial result in the period in which they are incurred.

## Earnings per share

Earnings per share are calculated by dividing the profit/loss for the year attributable to ordinary shareholders (profit/loss for the year attributable to shareholders of Lenzing AG) by the average number of ordinary shares outstanding during the financial year (see Note 18 for more detail).

## Financial instruments

Financial instruments comprise financial assets and financial liabilities. Initial recognition of a financial asset is at fair value taking into account transaction costs incurred. Initial recognition of a financial liability is at fair value less transaction costs incurred. Transaction costs incurred in the acquisition of financial assets and liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Depending on their classification/measurement category, financial instruments are recognized either at (amortized) cost or at fair value on subsequent measurement.

The Lenzing Group uses the measurement categories “Loans and receivables”, “Available-for-sale financial assets” and “Financial liabilities at amortized cost”. The category of “Financial instruments at fair value through profit or loss” is only used for trading derivatives. The fair value option is not currently exercised. The Lenzing Group does not have any held-to-maturity investments. The item measured is the relevant individual financial instrument.

If there is evidence to suggest impairment (particularly significant financial difficulties of the debtor, default or delay in making payments, an increased probability that the debtor will become bankrupt), non-collateralized financial assets are written down in profit or loss. Impairment losses are recognized via an allowance account. Financial assets are derecognized directly only if the contractual rights to payments from the financial assets conclusively no longer exist (particularly in the event of bankruptcy). If the reasons for the impairment loss cease to apply, it is reversed up to cost.

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a contractual party to a financial instrument. Financial assets are derecognized when the contractual rights to payments from the financial assets no longer exist or the financial assets are transferred together with all material risks and rewards. Financial liabilities are derecognized when the contractual obligations are settled, canceled or have expired. Financial instruments are recognized/derecognized as at the settlement date for all transactions.

## Derivative financial instruments and hedges

The Lenzing Group uses derivative financial instruments to hedge against currency risks from operating business and to manage commodity price risks. These derivative financial instruments serve to compensate for the variability of cash flows from future transactions. Hedges are determined in advance on the basis of the expected revenue and planned consumption of commodities in the relevant foreign currency.

The Lenzing Group applies the hedge accounting regulations under IAS 39 with respect to these derivative financial instruments. The use of hedge accounting is subject to the requirements that the hedging relationship must be documented and the effectiveness of the hedge must be measured on a regular basis and must be between 80% and 125%. Effective offsetting between unrealized losses and gains is demonstrated by means of effectiveness tests. In measuring effectiveness, the hedged items and the hedging instruments are grouped together in at least quarterly maturity ranges for each hedged risk. The prospective hedging effect of the hedges is demonstrated by comparing the main conditions. The planned hedged items are compared against the hedging instruments concluded. The retrospective hedging effect is assessed using the dollar-offset method, which compares periodic changes in the fair value of the hedged items with periodic changes in the fair value of the hedges in line with the compensation method.

If the criteria for using hedge accounting are fulfilled, the profit or loss from changes in the fair value of the derivative financial instruments is recognized either in profit or loss or in other comprehensive income, depending on whether the hedge is a fair value hedge or a cash flow hedge. In the case of fair value hedges, the results of the fair value measurement of the hedges and of the related hedged items are offset in profit or loss. Unrealized gains and losses from changes in the fair value of cash flow hedges are initially reported in other comprehensive income and do not impact profit or loss until the underlying hedged items are implemented. In hedging future cash flows in foreign currencies (cash flow hedges), the Lenzing Group typically hedges the risk until the time that the payment in the foreign currency is made. Reclassification from other comprehensive income to profit or loss takes place when the foreign-currency sales are generated or when the foreign-currency cost of materials is incurred. From the point in time when foreign-currency receivables and payables are recognized, changes in the fair value of the derivatives are recognized in profit or loss. From this point on, changes in fair value are shown alongside the foreign currency valuation of the foreign-currency trade receivables/payables as at the reporting date. Ineffective portions of changes in the fair values of cash flow hedges and the measurement of derivatives for which no hedging relationship can be established (trading derivatives) are recognized immediately in the income statement.

Derivatives embedded in other financial instruments or other host contracts are treated as stand-alone derivatives if their economic characteristics and risks are not closely related to the host contract and the entire contract is not measured at fair value through profit or loss.

Derivatives are measured at fair value. Their fair value is equal to their market value, if available, or calculated using standard methods on the basis of the market data available on the measurement date (particularly exchange rates, commodity prices and interest rates). The fair value of derivatives reflects the estimated value that would be payable or receivable by the Lenzing Group if the deal were closed on the reporting date. Currency and commodity forwards are measured using the respective forward rate or price at the end of the reporting period. The forward rates or prices are based on the spot rates or prices taking into account forward premiums and discounts. Valuations by banks and other parties are used in addition to the Group's own models to estimate measurement.

In measuring derivatives, the contractant risk (credit risk/counterparty risk/non-performance risk) that a market participant would recognize when setting prices is also taken into account in the form of discounts from the fair value. Framework netting agreements are not taken into account here. The future exposure is considered to be constant and the creditworthiness of the counterparty and of the company itself are derived from historical probabilities of default. This is mainly done on the basis of externally available capital market data. Due to the counterparties' consistently good creditworthiness on the basis of experience, the company's own good creditworthiness and the predominantly short remaining terms of the derivatives, the given nominal values were only subject to low levels of discounts.

Contracts that are entered into and continue to be held for the purpose of the receipt or delivery of non-financial items in accordance with the expected purchase, sale or usage requirements (internal consumption contracts) are not accounted for as derivative financial instruments, but rather as open transactions.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## NOTE 4 Changes in entities included in consolidation and business combinations

In April 2013, the Lenzing Group reached an agreement with a minority shareholder for the acquisition of a further 2.29% of shares in the already fully consolidated PT. South Pacific Viscose, Purwakarta, Indonesia, for a sum equivalent to around EUR 3,471 thousand. The closing of the acquisition and the payment of the purchase price took place in July 2013. Thus, the Lenzing Group's interest in this company increased from 90.56% to 92.85%. As a result of this transaction, non-controlling interests declined by EUR 4,564 thousand. The difference from this transaction of EUR 1,094 thousand was offset against retained earnings.

The sale of the former Business Unit Plastics was closed in June 2013. The closing led to the loss of control over and deconsolidation of Lenzing Plastics GmbH or rather Lenzing Plastics GmbH & Co KG, Lenzing, which was previously fully consolidated. Details of this can be found in Note 5.

The previously fully consolidated companies Lyocell Holding Ltd., Manchester, UK, and Tencel Holding Overseas Ltd., St. Helier, Jersey, were deconsolidated in June 2013 as their liquidation had been largely completed from an economic perspective. A gain of EUR 580 thousand was recognized in other operating income as a result of the loss of control. There were no notable cash flows or disposals of cash and cash equivalents, other assets or liabilities and no consideration received.

The acquisition of a further 44% of shares in the previously already fully consolidated European Precursor GmbH, Kelheim, Germany, by the Lenzing Group was completed in October 2013. The company was also deconsolidated in October 2013, as its liquidation was largely completed from an economic perspective. Details of this can be found in Note 5.

In March 2014, a non-proportional capital increase in the amount of EUR 72 thousand was carried out at Lenzing Modi Fibers India Private Limited, with the result that the Lenzing Group's equity interest rose from 96.31% to 96.33%. As a result of this transaction, non-controlling interests increased by EUR 2 thousand. The difference offset against retained earnings amounted to EUR 2 thousand.

In April 2014, Lenzing Land Holding LLC, Dover, USA, was founded. The Lenzing Group's share in this company is 100%. The company was included in the group of fully consolidated subsidiaries of the Lenzing Group.

In June 2014, another non-proportional capital increase in the amount of EUR 185 thousand was carried out at Lenzing Modi Fibers India Private Limited, with the result that the Lenzing Group's equity interest rose from 96.33% to 96.37%. As a result of this transaction, non-controlling interests increased by EUR 3 thousand. The difference offset against retained earnings amounted to EUR 3 thousand.

In October 2014, shares in European Carbon Fiber GmbH, Kelheim, Germany were sold for EUR 2 thousand, with the result that the Lenzing Group's equity interest in this company fell from 100% to 91.07%. As a result of this transaction, non-controlling interests increased by EUR 68 thousand. The difference offset against retained earnings amounted to EUR 66 thousand.

In December 2014, another non-proportional capital increase in the amount of EUR 128 thousand was carried out at Lenzing Modi Fibers India Private Limited, with the result that the Lenzing Group's equity interest rose from 96.37% to 96.41%. As a result of this transaction, non-controlling interests increased by EUR 2 thousand. The difference offset against retained earnings amounted to EUR 2 thousand.

Otherwise there were no business combinations or changes in the entities included in consolidation.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## NOTE 5 Non-current assets and liabilities held for sale, disposal groups and discontinued operations

### 2013 financial year

### BU Plastics

Lenzing Plastics GmbH, Lenzing, which was the Business Unit (BU) Plastics, was a fully consolidated company of the Lenzing Group. In April 2013, as part of its ongoing concentration on its core business of fibers, the Lenzing Group reached an agreement on the sale of shares in the former Business Unit Plastics (i.e. in Lenzing Plastics GmbH) to an Austrian syndicate of bidders led by Invest AG. The deal was closed in June 2013 following the approval of the antitrust authorities, as a result of which the Lenzing Group also lost control over the business unit. This led to its deconsolidation. As part of the transaction, Lenzing Plastics GmbH was transformed into the limited commercial partnership Lenzing Plastics GmbH & Co KG, Lenzing, and a previously non-operational shell company was acquired to serve as the general partner to that limited commercial partnership and subsequently renamed Lenzing Plastics GmbH, Lenzing. Both entities were acquired by LP Beteiligungs & Management GmbH, Linz.

The following net assets were deconsolidated as a result of the loss of control:

| Deconsolidated net assets | EUR '000 |
|---|---|
| Intangible assets and property, plant and equipment (incl. EUR 1,600 thousand for licenses) | 26,279 |
| Financial assets and other non-current assets | 350 |
| Other current assets | 31,166 |
| Cash and cash equivalents | 6,995 |
| **Deconsolidated assets** | **64,790** |
| Financial liabilities and other non-current liabilities | 177 |
| Provisions (incl. deferred and current tax liabilities) | 14,093 |
| Other current liabilities | 7,348 |
| **Deconsolidated liabilities** | **21,617** |
| **Deconsolidated net assets** | **43,173** |

The consideration received for the sale for 100% of shares amounted to EUR 69,037 thousand in total. There was a gain on disposal before taxes of EUR 25,865 thousand. Income taxes of EUR 7,689 thousand (including deferred taxes) relate to the gain on disposal.

The net cash inflow from the disposal is presented under net cash flows from discontinued operations in the cash flow from investing activities and breaks down as follows:

### Net inflow from the sale of subsidiaries — EUR '000

| | 2013 |
|---|---|
| Consideration received (cash and cash equivalents) | 68,647 |
| - Holdings of cash and cash equivalents sold | (6,995) |
| **Net inflow from the sale of subsidiaries** | **61,652** |

Following the complete sale of the former Business Unit Plastics, the Lenzing Group acquired a 15% interest in LP Beteiligungs & Management GmbH, Linz, for EUR 1,050 thousand. This stake is reported in the consolidated financial statements of the Lenzing Group under financial assets in the category "available-for-sale financial assets (measured at cost)".

## EPG

European Precursor GmbH (EPG), Kelheim, Germany, was a fully consolidated company of the Lenzing Group. In December 2012 the Management Board of Lenzing AG resolved to liquidate EPG. The liquidation was initiated after the Shareholders' Meeting of EPG held in January 2013. The closing of the acquisition of a further 44% of shares in EPG by the Lenzing Group was completed in October 2013. Thus, the Lenzing Group's interest in this company increased from 51% to 95%. The claim vis-à-vis puttable non-controlling interests was settled by means of this transaction in the amount of the equity interest. The transaction did not result in any difference to be offset against equity.

The company was also deconsolidated in October 2013, as its liquidation was largely completed from an economic perspective. The deconsolidation resulted in a loss of EUR 2 thousand that was recognized in other operating expenses. There were no notable cash flows or disposals of cash and cash equivalents, other assets or liabilities and no consideration received.

In the context of the liquidation of EPG, impairment on property, plant and equipment of EUR 3,000 thousand from fair value measurement less costs of disposal (measurement of non-current assets held for sale and discontinued operations) was recognized in the 2013 financial year under "Amortization of intangible assets and depreciation of property, plant and equipment". Income taxes of EUR 0 thousand were incurred on the impairment losses. The impairments mainly related to technical equipment and machinery. The fair value less costs of disposal amounted to EUR 0 thousand as at December 31, 2013. The fair value in 2013 was derived from a transaction on a market that is not active and was therefore completely allocated to Level 2 of the fair value hierarchy. In the course of the measurement process the observable market data needed were collected and the input factors not observable on the market were tested against internally available information and updated if necessary.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## Common disclosures for both discontinued operations

In the 2013 financial year, both discontinued operations – the former Business Unit Plastics and EPG – were presented in the consolidated income statement, in the consolidated cash flow statement and in segment reporting (see Note 6) under discontinued operations.

The profit for the period from discontinued operations broke down as follows in the 2013 financial year:

### Profit for the period from discontinued operations — EUR '000

| | 2013 |
|---|---|
| Revenues | 55,640 |
| Expenses | (50,735) |
| Allocation of profit or loss to puttable non-controlling interests | (619) |
| **Earnings before taxes from operating activities** | **4,286** |
| Current income taxes from operating activities | (58) |
| **Earnings after taxes from operating activities** | **4,228** |
| Gain from the sale of discontinued operations | 25,865 |
| Taxes on the gain from the sale (or abandonment) of discontinued operations | (7,689) |
| Measurement at fair value less costs of disposal | (3,000) |
| Taxes due to fair value measurement less costs of disposal (or abandon) | 0 |
| **Profit for the period from discontinued operations** | **19,404** |

Other comprehensive income from discontinued operations amounted to EUR -13 thousand in the 2013 financial year. Total comprehensive income from discontinued operations is fully attributable to the shareholders of the parent company.

The net cash flows from discontinued operations broke down as follows in the 2013 financial year:

### Net cash flows from discontinued operations — EUR '000

| | 2013 |
|---|---|
| In cash flow from operating activities | 8,128 |
| In cash flow from investing activities | 60,528 |
| In cash flow from financing activities | 5,081 |

## 2014 financial year

Because of the above deconsolidations in 2013, the presentation of non-current assets and liabilities held for sale, disposal groups and discontinued operations is omitted for 2014.

In the 2014 financial year, expenses in the amount of EUR 878 thousand before income tax in connection with the discontinued operations were recognized due to the resolution of uncertainties or changes in estimates. The income tax expense from these amendments amounts to EUR 220 thousand; earnings after taxes therefore amount to EUR -659 thousand.

Of these amendments, expenses of EUR 1,430 thousand resulted from adjustments of the purchase price receivables (reported under income from non-current and current financial assets), income of EUR 721 thousand resulted from the adjustment of assumption of obligations (reported under other operating income and other operating expenses), and expenses of EUR 170 thousand resulted from the interest impact of non-current provisions (reported under financing costs).

The amounts are entirely attributable to the shareholders of the parent company. All amounts mentioned above did not affect cashflows in the 2014 financial year.

## NOTE 6 Segment reporting

### Information on business segments

In the Lenzing Group the segments are classified according to the differences between their products and services; they require different technologies and market strategies. Each segment is managed separately based on the responsibilities of the different members of the Management Board. The chief operating decision maker relevant to 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 man-made cellulose fibers and markets them under the umbrella brands Lenzing Viscose®, Lenzing Modal® (including Lenzing FR®) and TENCEL®. A significant portion of the pulp needed for production purposes is manufactured in the Group's own plants or partially bought in. The most important raw material for the manufacture of pulp is wood, which is bought in. The Segment Fibers represents the core business of the Lenzing Group.

The Segment Fibers comprises the business areas Textile Fibers (fibers for textiles), Nonwoven Fibers (fibers for nonwoven fabrics) and Pulp (pulp and wood), as these are comparable with regard to the key business characteristics of the cellulose fiber industry (products, production process, customers and distribution methods). These business units are part of an integrated value chain (from the raw material wood via the pre-product pulp to the finished product fiber) with comparable risks and opportunities. Moreover, the Business area Energy is assigned to the Segment Fibers as the Segment Fibers has by far the highest energy requirements in the Lenzing Group on account of the energy-intensive nature of the fiber and pulp production process.

### Segment Lenzing Technik:

The Segment Lenzing Technik (formerly Segment Engineering) operates in the field of mechanical and plant engineering and offers engineering services. It comprises the Business area Lenzing Technik.

### Business Unit (BU) Plastics and European Precursor GmbH (EPG) (discontinued operations):

The BU Plastics (formerly Lenzing Plastics GmbH or rather Lenzing Plastics GmbH & Co KG, Lenzing) and European Precursor GmbH, Kelheim, Germany were presented as discontinued operations as at December 31, 2013 and in the period from January to December 2013, respectively, and shown separately in segment reporting. Due to the deconsolidation of both companies in 2013 this segment does not contain any values as at December 31, 2014 and in the period from January to December 2014 respectively and will be omitted in the future (see also Note 5).

### Other:

The residual Segment Other essentially comprises the business activities of Dolan GmbH, Kelheim, Germany. This company manufactures specialty products from plastic polymers (particularly acrylic fibers). It also includes the business activities of BZL-Bildungszentrum Lenzing GmbH, Lenzing (training and personnel development) and European Carbon Fiber GmbH, Kelheim, Germany (production of precursor for carbon fibers).

The residual Segment Other does not contain any business segments that would exceed the quantitative thresholds for reportable segments.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## Information on business segments

| 1-12/2014 and 31/12/2014 | Fibers | Lenzing Technik |
|---|---|---|
| Revenue from external customers | 1,755,599 | 43,565 |
| Inter-segment revenue | 8,414 | 47,218 |
| **Total revenue** | **1,764,014** | **90,782** |
| EBITDA (segment result) | 223,153 | 3,083 |
| EBIT | 98,499 | 1,248 |
| Amortization of intangible assets and depreciation of property, plant and equipment | 127,820 | 1,839 |
| Thereof impairment | 608 | 0 |
| Share of income from investments accounted for using the equity method | (580) | 0 |
| Other material non-cash income and expenses | 40,930 | 11,479 |
| Investments in intangible assets and property, plant and equipment | 102,954 | 778 |
| **EBITDA margin[1]** | **12.7%** | **3.4%** |
| **EBIT margin[2]** | **5.6%** | **1.4%** |
| Segment assets | 1,966,051 | 39,152 |
| Segment liabilities | 462,390 | 35,428 |
| Investments accounted for using the equity method | 36,078 | 0 |

## Information on business segments (previous year)

| 1-12/2013 and 31/12/2013 | Fibers | Lenzing Technik |
|---|---|---|
| Revenue from external customers | 1,754,524 | 49,486 |
| Inter-segment revenue | 11,325 | 75,649 |
| **Total revenue** | **1,765,849** | **125,135** |
| EBITDA (segment result) | 205,661 | 9,058 |
| EBIT | 91,179 | 7,264 |
| Amortization of intangible assets and depreciation of property, plant and equipment | 117,569 | 1,799 |
| Thereof impairment | 116 | 0 |
| Share of income from investments accounted for using the equity method | 3,788 | 0 |
| Other material non-cash income and expenses | 70,154 | 11,350 |
| Investments in intangible assets and property, plant and equipment | 249,992 | 3,119 |
| **EBITDA margin[1]** | **11.6%** | **7.2%** |
| **EBIT margin[2]** | **5.2%** | **5.8%** |
| Segment assets | 2,015,868 | 44,790 |
| Segment liabilities | 430,842 | 34,493 |
| Investments accounted for using the equity method | 37,203 | 0 |

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).

EUR '000

| BU Plastics and EPG (discontinued operations) | Other | Segment total | Reconciliation | Group |
|---|---|---|---|---|
| 0 | 65,058 | 1,864,222 | 0 | 1,864,222 |
| 0 | 1,783 | 57,415 | (57,415) | 0 |
| **0** | **66,841** | **1,921,638** | **(57,415)** | **1,864,222** |
| 0 | 12,487 | 238,724 | 1,578 | 240,302 |
| 0 | 11,542 | 111,289 | (89,363) | 21,926 |
| 0 | 946 | 130,605 | 90,941 | 221,546 |
| 0 | 0 | 608 | 93,956 | 94,564 |
| 0 | 39 | (541) | 0 | (541) |
| 0 | 1,748 | 54,157 | (1,280) | 52,877 |
| 0 | 578 | 104,311 | 0 | 104,311 |
| **-** | **18.7%** | **12.4%** | | **12.9%** |
| **-** | **17.3%** | **5.8%** | | **1.2%** |
| 0 | 27,210 | 2,032,413 | 342,638 | 2,375,051 |
| 0 | 11,758 | 509,576 | 819,841 | 1,329,417 |
| 0 | 1,878 | 37,956 | 0 | 37,956 |

EUR '000

| BU Plastics and EPG (discontinued operations) | Other | Segment total | Reconciliation | Group |
|---|---|---|---|---|
| 53,218 | 51,641 | 1,908,869 | 0 | 1,908,869 |
| 776 | 1,734 | 89,483 | (89,483) | 0 |
| **53,994** | **53,375** | **1,998,352** | **(89,483)** | **1,908,869** |
| 5,754 | 6,233 | 226,706 | (1,295) | 225,411 |
| 4,953 | 5,325 | 108,720 | (22,311) | 86,409 |
| 810 | 908 | 121,086 | 21,017 | 142,103 |
| 0 | 0 | 116 | 26,104 | 26,220 |
| 0 | 42 | 3,831 | 0 | 3,831 |
| (8,852) | 3,811 | 76,463 | 0 | 76,463 |
| 2,671 | 989 | 256,771 | (8,092) | 248,679 |
| **10.7%** | **11.7%** | **11.3%** | | **11.8%** |
| **9.2%** | **10.0%** | **5.4%** | | **4.5%** |
| 0 | 22,743 | 2,083,401 | 356,523 | 2,439,924 |
| 0 | 10,256 | 475,591 | 874,871 | 1,350,462 |
| 0 | 1,880 | 39,083 | 0 | 39,083 |

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

Segment Engineering was renamed to Segment Lenzing Technik. Otherwise, the same principles were applied in the presentation of segment reporting as in the consolidated financial statements as at December 31, 2013.

The performance of the segments is measured using EBITDA before restructuring (earnings before interest, taxes, depreciation on property, plant and equipment and amortization of intangible assets and before the income from the release of investment grants and before restructuring). The reconciliation of segment earnings to operating result (EBIT) to income before tax (EBT) is as follows:

### Reconciliation of segment result (EBITDA) to the earnings before taxes (EBT) — EUR '000

| | 2014 | 2013 |
|---|---|---|
| Segment result (EBITDA) | 238,724 | 226,706 |
| Consolidation | (452) | (7,351) |
| Restructuring | 2,030 | 6,056 |
| **Group result (EBITDA)** | **240,302** | **225,411** |
| Segment amortization of intangible assets and depreciation of property, plant and equipment | (130,605) | (121,086) |
| Consolidation | 3,015 | 5,087 |
| Income from the release of investment grants | 3,170 | 3,100 |
| Impairment of intangible assets and property, plant and equipment | (93,956) | (26,104) |
| **Earnings before interest and taxes (EBIT)** | **21,926** | **86,409** |
| Financial result | (23,439) | (26,725) |
| Allocation of profit or loss to puttable non-controlling interests | 8,818 | 8,430 |
| **Earnings before taxes (EBT)** | **7,305** | **68,113** |

The reconciliation from earnings before taxes (EBT) to profit/loss for the year (profit/loss after taxes; net profit/loss) can be viewed in the consolidated income statement. The line "Restructuring" shown above relates to personnel expenses in the amount of EUR -1,174 thousand and other operating expenses in the amount of EUR -135 due to restructuring measures in 2014. In connection with the liquidation of EPG other operating income in the amount of EUR 921 thousand and other operating expenses in the amount of EUR 200 thousand were incured (in 2013 this mainly related to other operating income from the disposal of BU Plastics of EUR 25,865 thousand, personnel expenses of EUR 18,427 thousand and other operating expenses of EUR 1,320 thousand from restructuring measures, and other operating income of EUR 5,596 thousand, cost of material and other purchased services of EUR 174 thousand, personnel expenses of EUR 751 thousand and other operating expenses of EUR 4,733 thousand in connection with the liquidation of EPG). In 2014, the line "Impairment of intangible assets and property, plant and equipment" of EUR 93,956 thousand shown above relates to the impairment of goodwill, other intangible assets and property, plant and equipment. In 2013 this line relates to an impairment loss of EUR 3,000 thousand recognized in the course of the liquidation of EPG and impairment on other intangible assets and property, plant and equipment of EUR 23,104 thousand.

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

### Reconciliation of segment EBIT to earnings before interest and taxes (EBIT) EUR ’000

| | 2014 | 2013 |
|---|---|---|
| Segment EBIT | 111,289 | 108,720 |
| Result from restructuring and impairment | (91,926) | (20,048) |
| Consolidation | 2,563 | (2,264) |
| **Earnings before interest and taxes (EBIT)** | **21,926** | **86,409** |

The reconciliation of segment amortization and depreciation to consolidated amortization and depreciation is as follows:

### Reconciliation of segment amortization and depreciation to consolidated amortization and depreciation EUR ’000

| | 2014 | 2013 |
|---|---|---|
| Segment amortization of intangible assets and depreciation of property, plant and equipment | 130,605 | 121,086 |
| Consolidation | (3,015) | (5,087) |
| **Amortization of intangible assets and depreciation of property, plant and equipment** | **127,590** | **115,999** |
| Impairment of intangible assets and property, plant and equipment | 93,956 | 26,104 |
| **Consolidated amortization and depreciation** | **221,546** | **142,103** |

# CONSOLIDATED FINANCIAL STATEMENTS 2014

Segment assets chiefly consist of intangible assets and property, plant and equipment, inventories, trade receivables and other receivables, except for 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

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Segment assets | 2,032,413 | 2,083,401 |
| Investments accounted for using the equity method | 37,956 | 39,083 |
| Assets not allocated to the segments | | |
| Securities and other financial assets | 23,194 | 23,176 |
| Deferred tax assets and current tax receivables | 42,184 | 39,396 |
| Cash and cash equivalents | 271,791 | 287,882 |
| Consolidation | (32,488) | (33,014) |
| **Consolidated assets** | **2,375,051** | **2,439,924** |

Segment liabilities chiefly relate to trade payables, provisions and other liabilities, except for current tax liabilities. The reconciliation of segment liabilities to consolidated liabilities is as follows:

## Reconciliation of segment liabilities to consolidated liabilities EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Segment liabilities | 509,576 | 475,591 |
| Liabilities not allocated to the segments | | |
| Financial liabilities | 729,778 | 800,680 |
| Deferred tax liabilities and current tax liabilities | 70,017 | 56,578 |
| Government grants | 26,559 | 26,025 |
| Consolidation | (6,514) | (8,413) |
| **Consolidated liabilities** | **1,329,417** | **1,350,462** |

The reconciliations of segment items to consolidated items that are not described in more detail above (revenue and investments) comprise consolidation effects only.

The valuations for segment reporting are in line with the accounting policies applied to the IFRS consolidated financial statements.

## Information about products and services

Revenue from external customers breaks down by products and services as follows:

### Revenue from external customers by product and service

| | 2014 | 2013 |
|---|---|---|
| Man-made cellulose fibers | 1,504,174 | 1,512,281 |
| Sodium sulfate and black liquor | 54,002 | 54,012 |
| Pulp, wood, energy and other | 205,838 | 199,556 |
| **Segment Fibers** | **1,764,014** | **1,765,849** |
| Mechanical and plant engineering and engineering services - Segment Lenzing Technik | 90,782 | 125,135 |
| Specialty products from plastic polymers | 63,037 | 103,870 |
| Other and consolidation | (53,611) | (85,985) |
| **Revenue according to consolidated income statement** | **1,864,222** | **1,908,869** |

There is no single external customer that accounts for more than 10% of external revenue.

## Information about geographic regions

Revenue from external customers by sales market and total assets, non-current assets (not including financial instruments and tax assets; reconciled to consolidated figures for total non-current assets) and investments in intangible assets and property, plant and equipment break down by geographic areas as follows:

### Information about geographic regions

EUR '000

| | Revenue | | Non-current assets | | Total assets | | Investments | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 31/12/2014 | 31/12/2013 | 31/12/2014 | 31/12/2013 | 2014 | 2013 |
| Austria | 143,264 | 176,136 | 782,941 | 772,828 | 982,951 | 987,720 | 78,504 | 156,249 |
| Europe (without Austria including Turkey) | 551,208 | 609,448 | 208,996 | 219,833 | 292,545 | 296,608 | 16,911 | 53,851 |
| Asia | 961,751 | 931,393 | 347,405 | 419,529 | 691,711 | 732,893 | 7,366 | 37,155 |
| America | 173,525 | 158,950 | 43,399 | 39,243 | 65,205 | 66,180 | 1,530 | 1,424 |
| Rest of the world | 34,474 | 32,942 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Subtotal** | **1,864,222** | **1,908,869** | **1,382,742** | **1,451,433** | **2,032,413** | **2,083,401** | **104,311** | **248,679** |
| Reconciliation to consolidated figures | 0 | 0 | 60,233 | 56,784 | 342,638 | 356,523 | 0 | 0 |
| **Consolidated total** | **1,864,222** | **1,908,869** | **1,442,975** | **1,508,217** | **2,375,051** | **2,439,924** | **104,311** | **248,679** |

# CONSOLIDATED FINANCIAL STATEMENTS 2014

Revenue is allocated based on the geographic region of the customer, while assets and investments are allocated depending on the geographic location of the asset.

The figures above comprise all segments of the Lenzing Group.

The production sites in the Segment Fibers are located in Austria, including the main plant in Lenzing, which manufactures both standard viscose fibers and specialty fibers, such as Lenzing Modal® (including Lenzing FR®) and TENCEL®, and the TENCEL® production site in Heiligenkreuz. There are additional TENCEL® production sites in the UK (Grimsby) and in the USA (Mobile). The Group also has two standard viscose fiber production sites in Asia: Indonesia (Purwakarta) and China (Nanjing). The pulp plants are located in Austria (Lenzing) and in the Czech Republic (Paskov). The sales network in the Segment Fibers comprises sales companies in China (Hong Kong and Shanghai) and sales offices in Indonesia (Jakarta), India (Coimbatore) and the United States (New York).

The production sites of the Segment Lenzing Technik are located in Austria (Lenzing) and in China (Nanjing).

Further information on the segments can be found in the management report of the Lenzing Group as at December 31, 2014.

## Notes on the Consolidated Income Statement

### NOTE 7 Revenue

Revenue breaks down as follows:

**Revenue** EUR '000

| | 2014 | 2013 |
|---|---|---|
| Revenue from the sale of man-made cellulose fibers | 1,504,174 | 1,512,281 |
| Revenue from the sale of other products and services | 336,389 | 373,263 |
| **Revenue invoiced** | **1,840,563** | **1,885,544** |
| Revenue from long-term construction contracts | 23,660 | 23,325 |
| **Total** | **1,864,222** | **1,908,869** |

Further breakdowns of revenue are shown in the segment report (see Note 6, particularly the information about products and services and about geographic areas).

## NOTE 8 Other operating income

Other operating income breaks down as follows:

### Other operating income EUR '000

| | 2014 | 2013 |
|---|---|---|
| Income from internal cost allocation, other products and energy | 30,575 | 20,021 |
| Income from the release of the deferred income item for emission certificates and from subsidies | 6,490 | 6,512 |
| Gain on disposal from the sale of subsidiaries | 0 | 25,865 |
| Various other income | 11,465 | 15,691 |
| **Total** | **48,530** | **68,090** |

Income from energy includes income from remuneration for green electricity in the amount of EUR 17,837 thousand (2013: EUR 9,659 thousand).

The gain on disposal from the sale of subsidiaries in 2013 entirely relates to the sale of Lenzing Plastics GmbH (or rather Lenzing Plastics GmbH & Co. KG, see Note 5) and is reported under discontinued operations.

Miscellaneous other income includes rental income of EUR 3,698 thousand (2013: EUR 3,364 thousand), income from the disposal of fixed assets in the amount of EUR 91 thousand (2013: EUR 917 thousand), insurance compensation from third parties for property, plant and equipment in the amount of EUR 206 thousand (2013: EUR 3,600 thousand) and exchange rate gains of EUR 4,676 thousand (2013: EUR 0 thousand).

## NOTE 9 Cost of material and other purchased services

The cost of material and other purchased services breaks down as follows:

### Cost of material and other purchased services EUR '000

| | 2014 | 2013 |
|---|---|---|
| Material | 1,040,050 | 1,090,503 |
| Other purchased services | 159,191 | 162,931 |
| **Total** | **1,199,241** | **1,253,434** |

The cost of material primarily relates to the input factors consumed, namely pulp (and wood for internal production of pulp), key chemicals (sodium hydroxide, carbon disulfide and sulfuric acid), and merchandise. The cost of other purchased services mainly relates to energy consumed.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## NOTE 10 Personnel expenses

Personnel expenses break down as follows:

### Personnel expenses EUR '000

| | 2014 | 2013 |
|---|---|---|
| Wages and salaries | 223,120 | 244,744 |
| Severance payment expenses | 4,689 | 24,695 |
| Retirement benefit expenses | 6,026 | 5,545 |
| Statutory social security expenses | 54,080 | 57,298 |
| Other social costs | 4,085 | 4,753 |
| **Total** | **292,000** | **337,034** |

The increase in the collective wage agreement at the Austrian sites as of May 1, 2014 was 2.5%. Comparable agreements at the subsidiaries led to increases of 3.2% in the UK, 2,5% in the Czech Republic and 8.4% in Indonesia in the 2014 financial year. There were no comparable, generally binding agreements in the other countries. The increase in the collective wage agreement at the Austrian sites as of May 3, 2013 was between 3.2% and 3.3%. Comparable agreements at the subsidiaries led to increases of 3.84% in the UK, 4.0% in the Czech Republic and 4.3% in Indonesia in the 2013 financial year. There were no comparable, generally binding agreements in the other countries.

Severance payment expenses chiefly include expenses for the statutory obligations of Lenzing AG and its Austrian subsidiaries towards their employees, as well as voluntary severance payments and severance pay in the course of restructuring (see Note 33).

The number of employees in the Lenzing Group breaks down as follows:

### Number of employees

| | 2014 | 2013 |
|---|---|---|
| Average | 6,516 | 6,854 |
| As at December 31 | 6,356 | 6,675 |

The number of employees at Lenzing AG and the Austrian subsidiaries of the Lenzing Group breaks down as follows:

### Average number of employees in Austria

| | 2014 | 2013 |
|---|---|---|
| Hourly workers | 1,790 | 1,813 |
| Salaried employees | 1,138 | 1,187 |
| **Total** | **2,928** | **3,000** |

## NOTE 11 Amortization of intangible assets and depreciation of property, plant and equipment

The item for amortization of intangible assets and depreciation of property, plant and equipment breaks down as follows:

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

| | 2014 | 2013 |
|---|---|---|
| Depreciation | 126,982 | 115,883 |
| Impairment | 94,564 | 26,220 |
| **Total** | **221,546** | **142,103** |

In financial year 2014, impairment contains EUR 0 thousand (2013: EUR 3,000 thousand) from fair value measurement of non-current assets held for sale less costs of disposal (see Note 5). The other impairments and reversals of impairment losses are explained in Notes 19 and 20.

## NOTE 12 Other operating expenses

Other operating expenses break down as follows:

### Other operating expenses — EUR '000

| | 2014 | 2013 |
|---|---|---|
| Costs to sell | 100,320 | 103,563 |
| Expenses for maintenance, repairs and other third-party services | 39,325 | 24,558 |
| Legal, consulting and audit expenses | 12,288 | 12,377 |
| Insurance expenses | 9,378 | 10,410 |
| Travel expenses | 5,958 | 9,135 |
| Waste disposal expenses | 6,861 | 11,833 |
| Other | 39,148 | 52,959 |
| **Total** | **213,279** | **224,835** |

Costs to sell include expenses for outgoing freight in the amount of EUR 83,357 thousand (2013: EUR 81,850 thousand) and for commissions and advertising in the amount of EUR 16,964 thousand (2013: EUR 21,714 thousand).

Miscellaneous other operating expenses include rental and lease expenses of EUR 7,513 thousand (2013: EUR 9,474 thousand), exchange rate losses of EUR 0 thousand (2013: EUR 8,775 thousand), property tax and similar taxes of EUR 4,455 thousand (2013: EUR 4,552 thousand), loss on receivables of EUR 4,000 thousand (2013: TEUR 170), expenses for patents and trademarks of EUR 2,736 thousand (2013: EUR 3,516 thousand), expenses for food and drink of EUR 2,546 thousand (2013: EUR 2,964 thousand) and expenses from emission certificates in the amount of EUR 1,590 thousand (2013: EUR 1,947 thousand). In addition, the item comprises losses on the disposal of fixed assets in the amount of EUR 123 thousand (2013: EUR 58 thousand).

## NOTE 13 Auditors' fees

The fees expensed for services of Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna, and Deloitte Tax Wirtschaftsprüfungs GmbH, Vienna, break down as follows:

### Auditors' fees expensed — EUR '000

| 2014 | Lenzing AG | Austrian group companies | Total |
|---|---|---|---|
| Audit of the annual financial statements (incl. consolidated financial statements) | 259 | 0 | 259 |
| Other assurance services | 42 | 61 | 103 |
| Other services | 10 | 0 | 10 |
| Tax advice | 294 | 39 | 332 |
| **Total** | **604** | **99** | **704** |

### Auditors' fees expensed (prior year) — EUR '000

| 2013 | Lenzing AG | Austrian group companies | Total |
|---|---|---|---|
| Audit of the annual financial statements (incl. consolidated financial statements) | 261 | 0 | 261 |
| Other assurance services | 46 | 58 | 103 |
| Other services | 0 | 0 | 0 |
| Tax advice | 146 | 24 | 170 |
| **Total** | **453** | **82** | **535** |

Fees for other assurance services chiefly consist of fees for the review of the consolidated half-year financial statements and the audit of the annual financial statements of Lenzing Group subsidiaries.

## NOTE 14 Income from investments accounted for using the equity method

The result of EUR -541 thousand (2013: EUR 3,831 thousand) results from the Group's share in the current earnings of associates and joint ventures.

## NOTE 15 Income from non-current and current financial assets

Income from non-current and current financial assets breaks down as follows:

### Income from non-current and current financial assets EUR ,000

| | 2014 | 2013 |
|---|---|---|
| **Income from non-current and current financial assets** | | |
| Interest income from bank balances, loans, receivables and income from available-for-sale securities | 1,924 | 2,735 |
| Net foreign currency gains from financial assets | 4,077 | 0 |
| | **6,001** | **2,735** |
| **Expenses from non-current and current financial assets** | | |
| Measurement of loans | (10) | (9) |
| Measurement of long-term financial assets | (1,430) | 0 |
| Loss on the disposal of available-for-sale securities | (43) | 0 |
| Net foreign currency losses from financial assets | 0 | (2,012) |
| | **(1,482)** | **(2,022)** |
| **Total** | **4,519** | **714** |

## NOTE 16 Financing costs

Financing costs break down as follows:

### Financing costs EUR ’000

| | 2014 | 2013 |
|---|---|---|
| Net foreign currency gains/losses from financial liabilities | (1,556) | (5,170) |
| Interest expense from bonds and private placements | (5,892) | (5,905) |
| Interest expense from bank loans, other interest and similar expenses | (19,969) | (20,194) |
| **Total** | **(27,416)** | **(31,269)** |

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## NOTE 17 Income tax expense

Current income tax expense and income/expense from deferred taxes (changes in deferred tax assets and liabilities) of the companies included in the consolidated financial statements are reported as income tax expense.

Income tax expense breaks down as follows:

### Income tax expense by source — EUR '000

| | 2014 | 2013 |
|---|---|---|
| **Current income tax expense** | | |
| Austria | 16,276 | 20,344 |
| Abroad | 4,407 | 403 |
| | **20,683** | **20,747** |
| **Income/expense from deferred taxes** | **783** | **(2,668)** |
| **Total** | **21,466** | **18,079** |

### Income tax expense by cause — EUR '000

| | 2014 | 2013 |
|---|---|---|
| **Current income tax expense** | | |
| Current tax expense for current year | 23,612 | 19,976 |
| Reduction due to use of tax losses | (369) | (698) |
| Adjustment for prior-period income tax | (2,560) | 1,469 |
| | **20,683** | **20,747** |
| **Income/expense from deferred taxes** | | |
| Formation and reversal of temporary differences | (1,326) | 9,173 |
| Effects of changes in tax rates | (1) | (200) |
| Change in capitalized loss carryforwards | (496) | (5,984) |
| Effects of previously unrecognized temporary differences from prior periods | (137) | (4,416) |
| Changes in valuation adjustments relating to temporary differences (without loss carry forwards) | 2,742 | (1,241) |
| | **783** | **(2,668)** |
| **Total** | **21,466** | **18,079** |

The reconciliation from the calculated income tax expense in line with the Austrian corporation tax rate of 25% (December 31, 2013: 25%) to the effective income tax expense is as follows:

### Tax reconciliation — EUR '000

| | 2014 | 2013 |
|---|---|---|
| **Earnings before tax** | **7,305** | **68,113** |
| Calculated income tax expense (25% of earnings before tax) | 1,826 | 17,028 |
| Tax-free income and tax allowances (particularly research allowance) | (1,056) | (1,033) |
| Impairment of goodwill | 18,116 | 0 |
| Non-deductible expenses and withholding taxes | 1,533 | 3,234 |
| Income from investments accounted for using the equity method | 135 | (958) |
| Effect of different tax rates | (354) | 389 |
| Changes of tax rates | (1) | (202) |
| Tax income from prior periods | (2,697) | (2,947) |
| Exchange rate differences due to the translation of deferred tax items from local into functional currency | 2,066 | 8,816 |
| Change in unrecognized deferred tax assets from loss carryforwards and other temporary differences | 3,974 | (4,195) |
| Tax portion of puttable non-controlling interests | (2,204) | (2,107) |
| Other | 127 | 53 |
| **Income tax expense** | **21,466** | **18,079** |

The item "Tax income from prior periods" includes a tax credit of EUR 3,000 thousand (2013: EUR 1,773 thousand) from the tax group with B&C Industrieholding GmbH (see also Note 44). The item "Impairment of goodwill" comprises the impairment loss on CGU Fiber Site Indonesia in financial year 2014 (see note 19).

Lenzing AG and the Austrian subsidiaries of the Lenzing Group are subject to an income tax rate of 25% (December 31, 2013: 25%). The income tax rates applied for foreign companies range between 16.5% and 36.08% (December 31, 2013: between 16.5% and 34.0%).

In comparison to the previous financial year, there was a change in the applicable tax rate in the UK from 23% to 21% in 2014. As of April 1, 2015, a tax rate of 20% is applicable there and was already applied for deferred taxes as at December 31, 2014.

## NOTE 18 Earnings per share

Earnings per share are calculated as follows:

### Earnings per share — EUR '000

| | 2014 | 2013 |
|---|---|---|
| Profit/loss for the year attributable to shareholders of Lenzing AG used in the calculation of earnings per share | (13,478) | 50,113 |
| **Weighted average number of shares** | **26,550,000** | **26,550,000** |
| | **EUR** | **EUR** |
| Diluted = undiluted | (0.51) | 1.89 |

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

## NOTE 19 Intangible assets

### Development

Intangible assets developed as follows:

**Development of intangible assets** EUR '000

| 2014 | Goodwill | Concessions. industrial property rights. licenses and similar rights | Internally generated intangible assets | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **As at 01/01/2014** | **78,255** | **17,898** | **13,854** | **110,007** |
| Currency translation adjustment | 8,673 | 51 | 0 | 8,725 |
| Additions | 0 | 709 | 604 | 1,313 |
| Disposals | 0 | (18) | 0 | (18) |
| **As at 31/12/2014** | **86,929** | **18,640** | **14,458** | **120,027** |
| **Accumulated amortization** | | | | |
| **As at 01/01/2014** | **(208)** | **(12,535)** | **(9,853)** | **(22,597)** |
| Currency translation adjustment | (814) | (38) | 0 | (852) |
| Amortization | 0 | (818) | (622) | (1,440) |
| Impairment | (72,574) | (29) | (608) | (73,212) |
| Disposals | 0 | 5 | 0 | 5 |
| **As at 31/12/2014** | **(73,597)** | **(13,415)** | **(11,083)** | **(98,095)** |
| Carrying amount 01/01/2014 | 78,047 | 5,362 | 4,001 | 87,411 |
| Carrying amount 31/12/2014 | 13,332 | 5,225 | 3,375 | 21,931 |

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

| 2013 | Goodwill | Concessions, industrial property rights, licenses and similar rights | Internally generated intangible assets | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **As at 01/01/2013** | **82,091** | **17,709** | **14,396** | **114,196** |
| Currency translation adjustment | (3,836) | (38) | 0 | (3,873) |
| Changes in scope of consolidation[1] | 0 | (81) | (946) | (1,027) |
| Additions | 0 | 780 | 713 | 1,492 |
| Disposals | 0 | (472) | (308) | (780) |
| Reclassifications | 0 | 0 | 0 | 0 |
| Reclassification to assets held for sale and disposal groups | 0 | 0 | 0 | 0 |
| **As at 31/12/2013** | **78,255** | **17,898** | **13,854** | **110,007** |
| **Accumulated amortization** | | | | |
| **As at 01/01/2013** | **(124)** | **(12,357)** | **(10,736)** | **(23,218)** |
| Currency translation adjustment | (84) | 15 | 0 | (68) |
| Changes in scope of consolidation[1] | 0 | 79 | 934 | 1,013 |
| Amortization | 0 | (708) | (359) | (1,067) |
| Impairment | 0 | (36) | 0 | (36) |
| Reclassifications | 0 | 0 | 0 | 0 |
| Reclassification to assets held for sale and disposal groups | 0 | 0 | 0 | 0 |
| Disposals | 0 | 472 | 308 | 780 |
| Reversals of impairment losses | 0 | 0 | 0 | 0 |
| **As at 31/12/2013** | **(208)** | **(12,535)** | **(9,853)** | **(22,597)** |
| Carrying amount 01/01/2013 | 81,967 | 5,351 | 3,660 | 90,978 |
| **Carrying amount 31/12/2013** | **78,047** | **5,362** | **4,001** | **87,411** |

The additions to internally generated intangible assets shown above in the amount of EUR 604 thousand (2013: EUR 713 thousand) relate to additions from internal development. All other additions relate to additions from separate acquisition.

## Research and development expenses

Research and development expenses totaling EUR 18,776 thousand (2013: EUR 24,866 thousand) were incurred in the Lenzing Group in financial year 2014. These research and development expenses are calculated according to IFRS criteria. They comprise costs incurred in connection with the targeted search for new knowledge regarding the development and significant improvement of products, services or processes and in the context of research activities. They do not include investments subject to mandatory capitalization but do include income from reimbursements (particularly subsidies). Research and development expenses are recognized in income from operations (EBIT).

1) The changes in scope of consolidation relate to disposals of the deconsolidated companies.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## Impairment losses and reversals of impairment losses

Based on the impairment tests performed, impairment losses relating to intangible assets in the amount of EUR 73,212 thousand are recognized in the 2014 financial year (2013: EUR 36 thousand) under „Amortization of intangible assets and depreciation of property, plant and equipment" and in the fixed assets schedule above.

In financial year 2014, the impairment of goodwill in the amount of EUR 72,574 thousand relates to an Indonesian production site (a fiber production plant) of the Indonesia Fiber Site CGU in the Segment Fibers. The impairment losses are required as a result of reduced economic performance due to altered expectations in the fiber market and altered medium-term price expectations in particular. More details can be seen further down (see section „Goodwill and trademark rights with indefinite useful lives").

Under concessions, industrial property rights, licenses and similar rights, there were impairment losses of EUR 29 thousand (2013: EUR 36 thousand) in the 2014 financial year. The impairment losses relate to a Chinese production site in the Segment Fibers (see Note 20 for details). The impairment tests performed did not show any need for impairment of trademark rights with indefinite useful lives in either of the periods presented.

Under internally generated intangible assets, there were impairment losses of EUR 608 thousand on development costs in the Segment Fibers in the 2014 financial year (2013: EUR 0 thousand). They were required due to a lack of technical and commercial usability.

There were no reversals of impairment losses in either of the periods presented.

## Goodwill and trademark rights with indefinite useful lives

Goodwill and trademark rights with indefinite useful lives are allocated to the following segments/cash-generating units (CGUs) as at the reporting date:

### Goodwill and trademark rights with indefinite useful lives by segment/CGU — EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| **Segment Fibers** | | |
| CGU Fiber Site Indonesia | 0 | 64,931 |
| CGU Pulp Site Czech Republic | 9,525 | 9,611 |
| Other | 3,585 | 3,283 |
| | **13,109** | **77,825** |
| **Segment Other** | **3,313** | **3,313** |
| **Total** | **16,422** | **81,137** |

In the table above, the Segment Other includes trademark rights with indefinite useful lives in the amount of EUR 3,090 thousand as at the reporting date (December 31, 2013: EUR 3,090 thousand). No changes in the value of these trademark rights have been recognized, meaning that their carrying amount corresponds to cost. These trademark rights are classified as having indefinite useful lives because there is currently no foreseeable end to their economic use. The other amounts relate entirely to goodwill.

The recoverable amount (before consideration of net financial debt) of the Indonesia Fiber Site CGU that was impaired in the 2014 financial year is EUR 313,517 thousand as at December 31, 2014 (December 31, 2013: EUR 402,742 thousand). The recoverable amount for the – prior to the impairments of the 2014 financial year – largest CGUs to which goodwill has been allocated – the Indonesia Fiber Site CGU and the Czech Republic Pulp Site CGU – is determined on the basis of the fair value less costs of disposal using a discounted cash flow method. Fair value measurement is classified in full in Level 3 of the fair value hierarchy, since key input factors (particularly cash flows) cannot be observed on the market. The fundamental methods and assumptions used for this are described in Note 3 in the section on "Impairments". The following individual assumptions from the most recent impairment tests are also relevant to the Indonesia Fiber Site CGU and the Czech Republic Pulp Site CGU; the amounts assigned to the significant assumptions represent the assessment of the future development by the Management Board:

## Assumptions for impairment test of the largest CGUs to which goodwill has been allocated

| | 2014 financial year | 2013 financial year |
|---|---|---|
| **CGU Fiber Site Indonesia** | | |
| Average operating margin in planning period p.a. | 6.5% | 8.1% |
| Average free cash flow growth in planning period p.a.[1] | 10.2% | 13.1% |
| Long-term growth rate of perpetuals | 1.0% | 1.1% |
| Discount rate (WACC) after taxes | 10.0% | 11.7% |
| **CGU Pulp Site Czech Republic** | | |
| Average operating margin in planning period p.a. | 13.8% | 11.5% |
| Average free cash flow growth in planning period p.a.[1] | (11.4%) | 20.9% |
| Long-term growth rate of perpetuals | 0.9% | 1.0% |
| Discount rate (WACC) after taxes | 7.9% | 9.1% |

Planning and projections of free cash flows of the Indonesia Fiber Site CGU are based in particular on internal assumptions with regard to anticipated future sales prices and volumes as well as fiber production volumes and the costs required for this (particularly for pulp and energy), taking into account the expected market environment and market positioning. The planning period is 5 years (2013 financial year: 6 years). Average revenue growth in the planning period is 2,2% p.a. (2013: 3.3% p.a.).

Planning and projections of free cash flows of the Czech Republic Pulp Site CGU are based in particular on internal assumptions with regard to anticipated future sales prices and volumes as well as pulp production volumes and the costs required for this (particularly for wood and energy), taking into account the expected market environment and market positioning. The planning period is 4 years (2013 financial year: 4 years). Average revenue growth in the planning period is -1.4% p.a. (2013: 1.4% p.a.).

[1] The computation of the average free cash flow growth in planning period p.a. corresponds to an annual growth rate (Compound Annual Growth Rate).

# CONSOLIDATED FINANCIAL STATEMENTS 2014

The estimates made for the fair value less costs of disposal of the Indonesia Fiber Site CGU exceed its carrying amount by EUR 40,276 thousand in the 2013 financial year. In the 2014 financial year the goodwill of this CGU was impaired; as a result its fair value less costs of disposal now matches the carrying amount. The estimates made for the fair value less costs of disposal of the Czech Republic Pulp Site CGU exceed its carrying amount by EUR 57,373 thousand (2013 financial year: EUR 17,139 thousand). The estimates are considered appropriate. However, corrections may be required in the event of changes in assumptions or circumstances. As part of a sensitivity analysis, the following table shows hypothetical scenarios for key assumptions and the possible changes in value as at the reporting date for which, if they occurred, the recoverable amount would be equal to the carrying amount of the CGU plus goodwill.

### Sensitivity analysis of assumptions for impairment test of the largest CGUs to which goodwill has been allocated

| | Values relating to key assumptions | Change in values relating to key assumptions for which the recoverable amount would be equal to the carrying amount |
|---|---|---|
| **CGU Pulp Site Czech Republic** | | |
| Operating margin | 100% | minus 20.2% |
| Free cash flow | 100% | minus 21.9% |
| Long-term growth rate of perpetuals | 0.9% | minus 3.0 percentage points |
| Discount rate (WACC) after taxes | 7.9% | plus 2.2 percentage points |

### Sensitivity analysis of assumptions for impairment test of the largest CGUs to which goodwill has been allocated (previous year)

| | Values relating to key assumptions | Change in values relating to key assumptions for which the recoverable amount would be equal to the carrying amount |
|---|---|---|
| **CGU Fiber Site Indonesia** | | |
| Operating margin | 100% | minus 12.2% |
| Free cash flow | 100% | minus 10.1% |
| Long-term growth rate of perpetuals | 1.1% | minus 2.4 percentage points |
| Discount rate (WACC) after taxes | 11.7% | plus 1.2 percentage points |
| **CGU Pulp Site Czech Republic** | | |
| Operating margin | 100% | minus 8.1% |
| Free cash flow | 100% | minus 7.6% |
| Long-term growth rate of perpetuals | 1.0% | minus 1.0 percentage points |
| Discount rate (WACC) after taxes | 9.1% | plus 0.8 percentage points |

## NOTE 20 Property, plant and equipment

### Development

Property, plant and equipment developed as follows:

**Development of property, plant and equipment** EUR '000

| 2014 | Land and buildings | Technical equip-ment and machinery, factory and office equipment | Down payments and assets under con-struction | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **As at 01/01/2014** | **428,337** | **2,071,477** | **214,455** | **2,714,269** |
| Currency translation adjustment | 15,936 | 64,308 | 1,319 | 81,563 |
| Additions | 14,559 | 70,588 | 13,023 | 98,169 |
| Disposals | (92) | (21,902) | 0 | (21,994) |
| Reclassifications | 44,791 | 153,432 | (198,223) | 0 |
| **As at 31/12/2014** | **503,530** | **2,337,904** | **30,573** | **2,872,007** |
| **Accumulated depreciation** | | | | |
| **As at 01/01/2014** | **(197,430)** | **(1,189,078)** | **(3,251)** | **(1,389,760)** |
| Currency translation adjustment | (4,546) | (29,689) | (266) | (34,501) |
| Depreciation | (14,714) | (110,828) | 0 | (125,542) |
| Impairment | (5,625) | (15,728) | 0 | (21,353) |
| Disposals | 16 | 21,623 | 0 | 21,639 |
| **As at 31/12/2014** | **(222,300)** | **(1,323,699)** | **(3,518)** | **(1,549,517)** |
| **Carrying amount 01/01/2014** | **230,906** | **882,399** | **211,204** | **1,324,509** |
| **Carrying amount 31/12/2014** | **281,230** | **1,014,205** | **27,056** | **1,322,490** |

# CONSOLIDATED FINANCIAL STATEMENTS 2014

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

| 2013 | Land and buildings | Technical equipment and machinery, factory and office equipment | Down payments and assets under construction | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **As at 01/01/2013** | **395,566** | **2,005,323** | **197,046** | **2,597,935** |
| Currency translation adjustment | (9,583) | (27,057) | (8,205) | (44,844) |
| Changes in scope of consolidation[1] | 0 | (65,660) | (243) | (65,903) |
| Additions | 15,603 | 91,716 | 137,713 | 245,032 |
| Disposals | (884) | (16,867) | (200) | (17,951) |
| Reclassifications | 27,634 | 84,022 | (111,656) | 0 |
| Reclassification to assets held for sale and disposal groups | 0 | 0 | 0 | 0 |
| **As at 31/12/2013** | **428,337** | **2,071,477** | **214,455** | **2,714,269** |
| **Accumulated depreciation** | | | | |
| **As at 01/01/2013** | **(181,468)** | **(1,141,311)** | **13** | **(1,322,766)** |
| Currency translation adjustment | 1,674 | 10,261 | (30) | 11,904 |
| Changes in scope of consolidation[1] | 0 | 41,239 | 0 | 41,239 |
| Depreciation | (13,087) | (101,729) | 0 | (114,815) |
| Impairment | (5,413) | (14,336) | (3,435) | (23,184) |
| Reclassifications | 0 | 0 | 0 | 0 |
| Reclassification to assets held for sale and disposal groups | 0 | 0 | 0 | 0 |
| Disposals | 863 | 16,798 | 200 | 17,862 |
| Reversals of impairment losses | 0 | 0 | 0 | 0 |
| **As at 31/12/2013** | **(197,430)** | **(1,189,078)** | **(3,251)** | **(1,389,760)** |
| **Carrying amount 01/01/2013** | **214,098** | **864,012** | **197,059** | **1,275,169** |
| **Carrying amount 31/12/2013** | **230,906** | **882,399** | **211,204** | **1,324,509** |

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

Property, plant and equipment also includes assets from finance leases (see Note 42).

In addition, there is physical security in the form of property, plant and equipment for loans borrowed by the Group. Please refer to the information in Note 31. The carrying amount of property, plant and equipment pledged to secure financial liabilities is EUR 268,178 thousand (December 31, 2013: EUR 253,664 thousand).

[1] The changes in scope of consolidation relate to disposals of the deconsolidated companies.

## Capitalization of borrowing costs

In financial year 2014, borrowing costs for property, plant and equipment were capitalized in the amount of EUR 3,025 thousand (2013: EUR 4,941 thousand), using a borrowing cost rate of 2.8% to 3.0% (2013: 2.6% to 3.0%).

## Impairment losses and reversals of impairment losses

Based on the impairment tests performed, impairment losses relating to property, plant and equipment in the amount of EUR 21,353 thousand (2013: EUR 23,184 thousand) are recognized under "Amortization of intangible assets and depreciation of property, plant and equipment" and in the fixed assets schedule above for financial year 2014.

In financial year 2014, EUR 21,353 thousand (2013: EUR 19,633 thousand) of the impairment of property, plant and equipment related to a Chinese production site (a fiber production plant) in the Segment Fibers with EUR 5,625 thousand (2013: EUR 5,413 thousand) of this impairment relating to land and buildings and EUR 15,728 thousand (2013: EUR 14,220 thousand) relating to technical equipment and machinery (particularly fiber production facilities) as well as factory and office equipment. The impairment losses are required as a result of reduced economic performance due to altered expectations in the fiber market, thereof altered medium-term price expectations in particular; and due to altered expectations with regard to the usage of the production site.

The recoverable amount (before consideration of net financial debt) of the Chinese production site is EUR 105,839 thousand (December 31, 2013: EUR 131,594 thousand). The recoverable amount is determined on the basis of the fair value less costs of disposal using a discounted cash flow method. Fair value measurement is classified in full in Level 3 of the fair value hierarchy, since key input factors (particularly cash flows) cannot be observed on the market. The fundamental methods and assumptions used for this correspond analogously to those used to determine the fair value less costs of disposal of cash-generating units to which goodwill has been allocated, and are described in Note 3 in the section on "Impairments". The following individual assumptions are also relevant to this Chinese production site; the amounts assigned to the significant assumptions represent the assessment of the future development by the Management Board:

### Assumptions for impairment test of the Chinese production site

| | 2014 financial year | 2013 financial year |
|---|---|---|
| Average operating margin in planning period p.a. | 0.7% | 0.5% |
| Average free cash flow growth in planning period p.a.[1] | 11.6% | 4.6% |
| Long-term growth rate of perpetuals | 1.4% | 1.9% |
| Discount rate (WACC) after taxes | 8.6% | 10.8% |

[1)] The computation of the average free cash flow growth in planning period p.a. corresponds to an annual growth rate (Compound Annual Growth Rate).

Planning and projections of free cash flows of the Chinese production site are based in particular on internal assumptions with regard to anticipated future sales prices and volumes as well as fiber production volumes and the costs required for this (particularly for pulp and energy), taking into account the expected market environment and market positioning. The planning period is 5 years (2013 financial year: 6 years). Average revenue growth in the planning period is 3.5% p.a. (2013: 4.6% p.a.).

Other impairment of property, plant and equipment in financial year 2013 primarily consists of impairment of EUR 3,435 thousand on assets under construction at an Indian site in the Segment Fibers. The impairment losses are required due to further delay of the investments originally planned. The recoverable amount (before consideration of net financial debt) is EUR 6,966 thousand as at December 31, 2013 and is estimated by internal experts based on fair value less costs of disposal for the individual assets from estimated disposal possibilities that are, to some extent, not observable on the market. Fair value measurement is therefore classified in full in Level 3 of the fair value hierarchy.

In addition, there were impairment losses of another EUR 116 thousand on machinery in the Segment Fibers in financial year 2013. These were required due to technical and commercial obsolescence.

There were no reversals of impairment losses in either of the periods presented.

## NOTE 21 Investments accounted for using the equity method

Investments accounted for using the equity method relate to investments in associates and joint ventures, especially in EQUI-Fibres Beteiligungsgesellschaft mbH (EFB), Kelheim, Germany, which is assigned to the Segment Fibers.

Investments accounted for using the equity method break down as follows:

### Carrying amounts of investments accounted for using the equity method — EUR ’000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| **Associates** | | |
| EQUI-Fibres Beteiligungsgesellschaft mbH (EFB) | 32,470 | 33,755 |
| Other associates | 5,422 | 5,266 |
| **Joint ventures** | **65** | **62** |
| **Total** | **37,956** | **39,083** |

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

| 2014 | EFB | Other associates | Joint ventures | Total |
|---|---|---|---|---|
| **As at 01/01** | **33,755** | **5,266** | **62** | **39,083** |
| Income from investments accounted for using the equity method | (562) | 18 | 3 | (541) |
| Other comprehensive income - remeasurement of defined benefit liability and other | (723) | 0 | 0 | (723) |
| Other comprehensive income – foreign currency translation differences arising during the reporting period | 0 | 178 | 0 | 178 |
| **Total comprehensive income** | **(1,285)** | **197** | **3** | **(1,086)** |
| Distributions | 0 | (40) | 0 | (40) |
| **As at 31/12** | **32,470** | **5,422** | **65** | **37,956** |

### Development of the carrying amounts of investments accounted for using the equity method (previous year)

EUR '000

| 2013 | EFB | Other associates | Joint ventures | Total |
|---|---|---|---|---|
| **As at 01/01** | **30,188** | **5,510** | **63** | **35,761** |
| Income from investments accounted for using the equity method | 3,592 | 237 | 1 | 3,831 |
| Other comprehensive income - remeasurement of defined benefit liability and other | (25) | 0 | 0 | (25) |
| Other comprehensive income – foreign currency translation differences arising during the reporting period | 0 | (441) | (2) | (443) |
| **Total comprehensive income** | **3,567** | **(204)** | **(1)** | **3,362** |
| Distributions | 0 | (40) | 0 | (40) |
| **As at 31/12** | **33,755** | **5,266** | **62** | **39,083** |

The above total comprehensive income figures result only from continued operations.

As at December 31, 2014, the Lenzing Group held 45% (December 31, 2013: 45%) of the capital and the voting rights of EFB, which is not listed on the stock exchange. The core business of EFB is the production and sale of man-made cellulose fibers. The Lenzing Group's relations with this company are described in Note 44.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

The table below summarizes EFB's financial information in accordance with IFRS (100% in each case, i.e. not adapted to the stake held by the Lenzing Group and before intra-Group eliminations or adjustments):

## Summarized financial information of EFB — EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Non-current assets | 80,307 | 78,267 |
| Current assets | 56,433 | 57,368 |
| Equity | 71,893 | 72,862 |
| Non-current liabilities | 21,982 | 20,905 |
| Current liabilities | 42,865 | 41,868 |
| | **2014** | **2013** |
| Revenue | 163,236 | 180,231 |
| Earnings before taxes (EBT) | (184) | 9,508 |
| Total comprehensive income | (968) | 6,039 |
| Thereof profit for the year (of continued operations) | 638 | 6,095 |
| Thereof other comprehensive income (of continued operations) | (1,607) | (56) |

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

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Equity | 71,893 | 72,862 |
| Thereof: | | |
| Group's stake (45%; previous year: 45%) | 32,352 | 32,788 |
| Consolidation and other effects | 118 | 967 |
| **Carrying amount** | **32,470** | **33,755** |

## NOTE 22 Financial assets

Financial assets break down as follows:

### Financial assets EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Non-current securities | 14,369 | 14,632 |
| Other equity investments | 1,564 | 1,064 |
| Loans | 7,261 | 7,480 |
| **Total** | **23,194** | **23,176** |

Non-current securities are measured at their current quoted prices or other market prices (particularly notional values for investment funds) and break down as follows:

### Non-current securities by asset class EUR '000

| 2014 | Market value 31/12 | Average effective yield in % | Income for the financial year |
|---|---|---|---|
| Government bonds | 5,944 | | |
| Bonds from other issuers | 100 | | |
| Other securities and book-entry securities | 8,325 | | |
| **Total** | **14,369** | **6.61** | **235** |

### Non-current securities by asset class (previous year) EUR '000

| 2013 | Market value 31/12 | Average effective yield in % | Income for the financial year |
|---|---|---|---|
| Government bonds | 6,563 | | |
| Bonds from other issuers | 100 | | |
| Other securities and book-entry securities | 7,969 | | |
| **Total** | **14,632** | **0.94** | **556** |

Government bonds mainly comprise bonds issued by the Federal Republic of Germany in the amount of EUR 2,683 thousand (December 31, 2013: EUR 2,386 thousand), by the Republic of France in the amount of EUR 837 thousand (December 31, 2013: EUR 1,864 thousand), and bonds issued by the Republic of Austria in the amount of EUR 358 thousand (December 31, 2013: EUR 1 thousand). Under bonds from other issuers, EUR 100 thousand (December 31, 2013: EUR 100 thousand) relates to bank bonds. Other securities and book-entry securities chiefly relate to shares.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

Other investments as at December 31, 2014 mainly include the investment in LP Beteiligungs & Management GmbH, Linz, in the amount of EUR 1,050 thousand (December 31, 2013: EUR 1,050 thousand).

Loans totaling EUR 7,261 thousand (December 31, 2013: EUR 7,480 thousand) relate entirely to loans to third parties.

## NOTE 23 Other non-current assets

Other non-current assets break down as follows:

### Other non-current assets EUR ’000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| **Other non-current financial assets** | | |
| Derivatives not yet settled (open positions) | 71 | 231 |
| Non-current receivables | 7,112 | 3,612 |
| | **7,183** | **3,843** |
| **Other non-current assets (non-financial)** | | |
| Receivables from other taxes | 1,457 | 900 |
| Prepaid expenses | 363 | 430 |
| | **1,820** | **1,330** |
| Total | 9,003 | 5,173 |

## NOTE 24 Inventories

Inventories break down as follows:

### Inventories EUR ’000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Raw materials and supplies | 224,756 | 199,996 |
| Work in progress | 3,756 | 4,591 |
| Finished goods and merchandise | 109,101 | 103,525 |
| Advance payments | 6,478 | 3,371 |
| Total | 344,092 | 311,483 |

Raw materials and supplies primarily include beechwood for pulp production, pulp and chemicals for cellulose fiber production and various incidentals.

Finished goods and work in progress include Lenzing Viscose®, Lenzing Modal® (including Lenzing FR®) and TENCEL® cellulose fibers, sodium sulfate, acetic acid, furfural and plastic products, as well as products of the Segment Lenzing Technik.

In financial year 2014, write-downs of inventories were recognized in profit or loss in the amount of EUR 9,880 thousand (2013: EUR 8,959 thousand). The carrying amount of inventories carried at net realizable value is EUR 180,112 thousand (December 31, 2013: EUR 215,417 thousand). Expenses for inventories are mainly recognized in cost of material. Inventories recognized as cost of material in the reporting period amount to EUR 1,040,050 thousand (2013: EUR 1,090,503 thousand).

The carrying amount of inventories pledged to secure financial liabilities is EUR 93,509 thousand (December 31, 2013: EUR 78,279 thousand).

Of the inventories, EUR 19,073 thousand (2013: EUR 16,574 thousand) is expected to be held for longer than one year.

## NOTE 25 Trade receivables

Trade receivables break down as follows:

### Trade receivables EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Trade receivables (gross) | 243,270 | 266,395 |
| Bad debt provisions | (10,501) | (7,554) |
| **Total** | **232,769** | **258,841** |

The carrying amount of receivables pledged to secure financial liabilities or assigned as collateral is EUR 0 thousand (December 31, 2013: EUR 0 thousand).

Further information on trade receivables can be found in Notes 39 and 41 (under "Factoring" and "Credit risk").

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## NOTE 26 Construction contracts

### Construction contracts EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Contract costs incurred by the reporting date | 3,189 | 1,954 |
| Profits accrued by the reporting date | 287 | 175 |
| Losses incurred by the reporting date | (164) | (30) |
| **Balance from contract manufacturing (gross)** | **3,313** | **2,099** |
| Less advance payments received (total) | (3,217) | (1,058) |
| **Balance from contract manufacturing (net)** | **96** | **1,042** |
| Thereof gross amount due from customers for contract work (trade receivables) | 2,032 | 1,809 |
| Thereof gross amount due to customers for contract work (other current liabilities) | (1,936) | (767) |
| Retentions included therein | 0 | 0 |
| Provisions for expected losses from construction contracts | 13 | 0 |

Revenue of EUR 23,660 thousand (2013: EUR 23,325 thousand) was generated from construction contracts in financial year 2014.

## NOTE 27 Other current assets

Other current assets break down as follows:

### Other current assets EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| **Other current financial assets** | | |
| Derivatives not yet settled (open positions) | 453 | 6,068 |
| Creditors with debit balances | 1,845 | 2,155 |
| Offset maintenance | 4,390 | 3,200 |
| Other | 14,690 | 7,696 |
| **Carrying amount as at 31/12** | **21,377** | **19,119** |
| **Other current assets (non-financial)** | | |
| Receivables from other taxes | 37,444 | 36,447 |
| Advance payments | 1,869 | 2,954 |
| Emission certificates | 5,280 | 1,624 |
| Prepaid expenses | 3,544 | 2,760 |
| Other | 126 | 66 |
| **Carrying amount as at 31/12** | **48,262** | **43,851** |
| Total | 69,640 | 62,970 |

## NOTE 28 Current securities

There were no current securities on both reporting dates presented in these financial statements.

## NOTE 29 Equity

### Consolidated statement of changes in equity

The amount of and changes in Group equity are presented in the consolidated statement of changes in equity.

### Share capital and capital reserves

The share capital of Lenzing AG amounts to EUR 27,574,071.43 as at December 31, 2014 (December 31, 2013: EUR 27,574,071.43) and is divided into 26,550,000 no-par-value shares (December 31, 2013: 26,550,000). The proportion of the share capital attributable to one share amounts to roughly EUR 1.04. Each ordinary share represents an equal interest in the capital and conveys the same rights and obligations, particularly the right to a resolved dividend and the right to vote at the Shareholders' Meeting. The issuing amount of the shares is fully paid up. No other classes of shares have been issued.

By resolution of the Shareholders' Meeting on December 10, 2010, the Management Board was authorized, subject to the approval of the Supervisory Board, to increase the share capital by a maximum of EUR 13,358,625.00 (equivalent to 12,862,500 shares or 50% of the share capital as at December 31, 2010) within five years – possibly in tranches – in exchange for cash contributions and contributions in kind ("authorized capital").

Effective June 17, 2011 (the first trading day of the new shares), Lenzing AG implemented a capital increase as authorized in the extraordinary Shareholders' Meeting on December 10, 2010. A total of 825,000 new shares were issued. The share capital was fully paid up.

In addition, the Management Board was authorized by resolution of the Shareholders' Meeting on December 10, 2010, subject to the approval of the Supervisory Board, to issue convertible bonds granting a subscription right or specifying a conversion obligation for up to 12,862,500 ordinary shares (equivalent to 50% of the share capital as at December 31, 2010) by no later than December 9, 2015 ("contingent capital").

After the implementation of the capital increase in financial year 2011, the number of new shares to be issued and convertible bonds decreased to 12,037,500.

By resolution of the Shareholders' Meeting on April 28, 2014, the Management Board was authorized to purchase via the stock exchange, with the consent by the Supervisory Board, own shares of up to 10% of the company's share capital during a period of 30 months from April 28, 2014, with the lowest equivalent of not more than 20% below and the highest equivalent of not more than 10% above the average closing price of the last three stock exchange days prior to the purchase of the shares. The purchase must not be for the purpose of trading in own shares. The authorization may be exercised in whole or in part or in several partial amounts and in pursuit of one or several purposes by the company, by a subsidiary (section 228 para 3 of the Austrian Commercial Code [UGB]) or by third parties for the company's account. In addition, the Management Board was also authorized to reduce the share capital, if necessary, by redeeming such own shares without any further resolution by the Shareholders' Meeting. The Supervisory Board was authorized to adopt any amendments to the articles of association resulting from the redemption of shares.

The Management Board did not exercise the authorizations in place on December 31, 2014 to increase the share capital, issue convertible bonds and repurchase own shares in the reporting period.

The capital reserves constitute restricted reserves of Lenzing AG that may only be used to offset an accumulated loss of Lenzing AG. They were recognized based on the inflow of funds that Lenzing AG received from the shareholders above and beyond the 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 foreign currency translation reserve comprises all exchange rate differences resulting from the translation of annual financial statements of consolidated subsidiaries prepared in foreign currencies into the group currency (euro). The reserve for available-for-sale financial assets consists of measurements recognized directly in equity from the assets concerned, less deferred taxes. The hedging reserve comprises the effective portion of cash flow hedges until the hedged items are recognized in profit or loss, less deferred taxes. Actuarial gains/losses comprise the effects recognized directly in equity from the measurement of pensions and similar obligations, less deferred taxes.

The amounts attributable to components of other comprehensive income for the financial year break down as follows:

## Other comprehensive income

EUR '000

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Before tax | Tax effect | After tax | Before tax | Tax effect | After tax |
| Fully consolidated subsidiaries | 48,440 | 87 | 48,527 | (32,029) | 467 | (31,561) |
| Investments accounted for using the equity method | 178 | 0 | 178 | (447) | 0 | (447) |
| **Foreign currency translation reserve** | **48,618** | **87** | **48,705** | **(32,475)** | **467** | **(32,008)** |
| **Available-for-sale financial assets** | **790** | **(198)** | **593** | **(230)** | **58** | **(173)** |
| Fully consolidated subsidiaries | (27,449) | 6,168 | (21,281) | (1,568) | 262 | (1,306) |
| Investements accounted for using the equity method | (5) | 0 | (5) | 0 | 0 | 0 |
| **Hedging reserve** | **(27,454)** | **6,168** | **(21,286)** | **(1,568)** | **262** | **(1,306)** |
| Fully consolidated subsidiaries | (13,896) | 3,496 | (10,400) | (1,369) | 367 | (1,002) |
| Investements accounted for using the equity method | (718) | 0 | (718) | (25) | 0 | (25) |
| **Actuarial gains/losses** | **(14,614)** | **3,496** | **(11,118)** | **(1,394)** | **367** | **(1,027)** |
| Summe | 7,341 | 9,553 | 16,893 | (35,668) | 1,154 | (34,513) |

# CONSOLIDATED FINANCIAL STATEMENTS 2014

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

### Changes in the hedging reserve — EUR '000

| | 2014 | 2013 |
|---|---|---|
| **Gains/losses recognized in the reporting period from the valuation of cash flow hedges** | | |
| From gas swaps | (3,548) | 1,191 |
| From forward foreign exchange contracts | (31,537) | 806 |
| From other derivatives | (23) | 0 |
| | **(35,107)** | **1,997** |
| **Reclassification to profit or loss of amounts relating to cash flow hedges** | | |
| From gas swaps | 2,558 | (545) |
| From forward foreign exchange contracts | 4,892 | (3,206) |
| From other derivatives | 203 | 185 |
| | **7,653** | **(3,565)** |
| **Total** | **(27,454)** | **(1,568)** |

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

## Retained earnings

Retained earnings break down as follows:

### Retained earnings — EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Unappropriated revenue reserves of Lenzing AG | 380,441 | 257,447 |
| Accumulated profits of Lenzing AG under Austrian law (Austrian Commercial Code - öUGB) | 26,550 | 151,217 |
| Retained earnings of the subsidiaries including the effect of adjusting the financial statements of Lenzing AG and its subsidiaries from local regulations to IFRS | 483,385 | 541,726 |
| **Total (not including other reserves)** | **890,376** | **950,390** |

The unappropriated revenue reserves of Lenzing AG can be released at any time and distributed to the shareholders as part of the accumulated profits.

Under Austrian law, dividends can only be distributed from the accumulated profits according to the approved annual financial statements of the parent company pursuant to the Austrian Commercial Code (öUGB).

The following dividends were resolved and paid out 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 2013 resolved at the Ordinary Shareholders' Meeting on April 28, 2014 (payment April 30, 2014) | 46,463 | 26,550,000 | 1.75 |
| Dividend for the financial year 2012 resolved at the Ordinary Shareholders' Meeting on April 24, 2013 (payment April 30, 2013) | 53,100 | 26,550,000 | 2.00 |

The Management Board makes the following proposal for the appropriation of the accumulated profits for 2014 in the annual financial statements of Lenzing AG pursuant to the öUGB:

| Proposal on the appropriation of the accumulated profits for 2014 | EUR '000 |
|---|---|
| Lenzing AG closed financial year 2014 with a profit under Austrian law (öUGB) of | 44,790 |
| Allocation to (unappropriated) revenue reserves of | (122,994) |
| and adding the profit carried forward from 2013 of | 104,754 |
| **results in accumulated profits of** | **26,550** |
| The Management Board proposes the following appropriation of the accumulated profits: | |
| Distribution of a dividend in line with an amount of EUR 1,00 per share for the share capital entitled to dividend payments of EUR 27,574,071.43 or 26,550,000 shares | 26,550 |
| **Amount carried forward to new account** | **0** |

The dividend from the above proposal is subject to approval by the shareholders at the Shareholders' Meeting and is therefore recognized in equity as at the reporting date.

The dividends are subject to a capital gains tax deduction of 25% (see the table above for the amounts). In the case of individuals with unlimited tax liability, the income tax in Austria is thereby settled (final taxation). Corporations with unlimited tax liability that hold at least 10% of the share capital are exempt from capital gains tax in Austria. Non-distributed profits are not taxed for shareholders in Austria. In the case of entities with limited tax liability, the relevant double taxation agreements must also be taken into account.

There are no income tax consequences for Lenzing AG arising from the dividend payments to its shareholders.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## Non-controlling interests

Non-controlling interests comprise the shareholdings of third parties in fully consolidated Group companies (non-controlling interests or shareholders). Companies with non-controlling interests are shown in Note 47 under “Fully consolidated companies” and there comprise those companies in which the Lenzing Group holds a share less than 100% and that are not reported under puttable non-controlling interests (the latter relates to Lenzing (Nanjing) Fibers Co., Ltd., Nanjing, China, which is assigned to the Segment Fibers).

As at December 31, 2014, non-controlling interests in equity amounted to EUR 23,291 thousand (December 31, 2013: EUR 21,406 thousand), in particular in PT. South Pacific Viscose (SPV), Purwakata, Indonesia, which is assigned to the Segment Fibers. As at December 31, 2014, the non-controlling shareholders held 11.92% (December 31, 2013: 11.92%) of the capital and voting rights of SPV, which is not listed on the stock exchange. The core business of SPV is the production and sale of man-made cellulose fibers.

The table below summarizes SPV’s financial information in accordance with IFRS (100% in each case, i.e. not adapted to the stake held by the Lenzing Group and before intra-Group eliminations or adjustments):

### Summarized financial information of SPV — EUR ’000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Non-current assets | 266,892 | 263,194 |
| Current assets | 166,412 | 143,947 |
| Equity | 195,395 | 179,577 |
| Thereof equity attributable to shareholders of Lenzing AG | 172,104 | 158,172 |
| Thereof equity attributable to non-controlling interests | 23,291 | 21,406 |
| Non-current liabilities | 106,207 | 116,463 |
| Current liabilities | 131,702 | 111,100 |
| | **2014** | **2013** |
| Revenue | 416,692 | 440,090 |
| Earnings before taxes (EBT) | (6,660) | 8,192 |
| Total comprehensive income | 15,818 | (9,232) |
| Thereof profit for the year (of continued operations) | (7,607) | (1,976) |
| Profit for the year attributable to shareholders of Lenzing AG | (6,700) | (1,944) |
| Profit for the year attributable to non-controlling interests | (907) | (32) |
| Thereof other comprehensive income (of continued operations) | 23,425 | (7,256) |
| Other comprehensive income attributable to shareholders of Lenzing AG | 20,633 | (6,429) |
| Other comprehensive income attributable to non-controlling interests | 2,792 | (828) |
| | | |
| Cash flow from operating activities | 41,859 | 23,418 |
| Cash flow from investing activities | (4,649) | (27,417) |
| Cash flow from financing activities | (36,535) | (36,698) |
| Change in cash and cash equivalents | 676 | (40,696) |
| | | |
| Dividends paid to non-controlling interests | 0 | 0 |

Changes in non-controlling interests in subsidiaries already controlled due to changes in ownership interests as a result of the Lenzing Group acquiring or selling shares without losing control are reported in the consolidated statement of changes in equity and had the following effects on non-controlling interests:

### Effects of the acquisition and disposal of further shares in subsidiaries already controlled

EUR '000

| | 2014 | 2013 |
|---|---|---|
| European Carbon Fiber GmbH (2014: - 8.93%, 2013: n.a.) | 68 | 0 |
| Lenzing Modi Fibers India Private Limited (2014: + 0.1%, 2013: n.a.) | 7 | 0 |
| PT. South Pacific Viscose (2014: n.a., 2013: + 2.29%) | 0 | (4,564) |
| **Decrease (+)/increase (-) of non-controlling interests in equity** | **75** | **(4,564)** |

In total, the following shares of other comprehensive income are attributable to non-controlling interests of subsidiaries of Lenzing AG:

### Other comprehensive income attributable to non-controlling interests

EUR '000

| | 2014 | 2013 |
|---|---|---|
| **Items that will not be reclassified subsequently to profit or loss** | | |
| Remeasurement of defined benefit liability | (72) | 197 |
| Income tax relating to these components of other comprehensive income | 18 | (57) |
| **Items that may be reclassified to profit or loss** | | |
| Foreign operations – foreign currency translation differences arising during the reporting period | 2,863 | (1,039) |
| Net fair value gains/losses on remeasurement of available-for-sale financial assets recognized in the reporting period | 5 | 0 |
| Income tax relating to these components of other comprehensive income | (1) | 0 |
| **Other comprehensive income – net of tax** | **2,813** | **(900)** |

## NOTE 30 Government grants

The amount accrued in this item primarily results from grants provided for promoting investments in economically underdeveloped regions and investments in environmental protection and from grants provided for promoting investments in general.

In the reporting period, government grants amounting to EUR 5,599 thousand (2013: EUR 5,053 thousand), mainly resulting from the promotion of research activities, were recognized in profit or loss.

Any conditions attached to these grants were fulfilled, meaning that it is considered unlikely that they will have to be repaid, even just in part.

Government grants also include emission certificates as at December 31, 2014 in the amount of EUR 3,749 thousand (December 31, 2013: EUR 286 thousand). Based on Directive 2003/87/EC of the European Parliament and the European Council on a system for trading greenhouse gas emission certificates, a total of 812,851 emission certificates were allocated free of charge to the relevant companies in the Lenzing Group for 2014 through national allocation plans (2013: 55,633 emission certificates). Emission certificates developed as follows:

### Development of emission certificates — Number

| | 2014 | 2013 |
|---|---|---|
| **As at 01/01** | **313,948** | **541,842** |
| Allocation for the year | 812,851 | 55,633 |
| Returned for actual emissions in the previous year | (266,261) | (297,207) |
| Net purchases and sales during the year | (13,115) | 13,680 |
| **As at 31/12** | **847,423** | **313,948** |

As at December 31, 2014, a provision of EUR 168 thousand (December 31, 2013: EUR 144 thousand) was set aside to cover the shortfall of emission certificates.

## NOTE 31 Financial liabilities

As at December 31, financial liabilities break down as follows:

### Financial liabilities EUR '000

| 31/12/2014 | Currency | Nominal value | Carrying amount | Average effective yield in % |
|---|---|---|---|---|
| **Bond** | | | | |
| Fixed interest | EUR | 120,000 | 119,713 | 3.91 |
| | | | **119,713** | |
| **Private placements** | | | | |
| Fixed interest | EUR | 139,500 | 139,128 | 2.99 |
| Floating-rate interest | EUR | 89,500 | 89,341 | 1.91 |
| | | | **228,468** | |
| **Liabilities to banks** | | | | |
| **Loans:** | | | | |
| Fixed interest | EUR | 44,668 | 44,668 | 3.17 |
| Floating-rate interest | EUR | 122,474 | 122,147 | 1.80 |
| Floating-rate interest | USD | 113,333 | 92,150 | 2.38 |
| Floating-rate interest | CNY | 50,480 | 6,691 | 6.29 |
| **Operating loans[1]:** | | | | |
| Floating-rate interest | USD | 26,577 | 21,612 | 3.37 |
| Floating-rate interest | CNY | 400,000 | 53,021 | 6.06 |
| Floating-rate interest | EUR | 6,500 | 6,500 | 0.93 |
| | | | **346,790** | |
| **Lease liabilities** | | | | |
| Fixed interest | EUR | 1,938 | 1,938 | 4.00 |
| Floating-rate interest | EUR | 2,544 | 2,544 | 2.25 |
| | | | **4,482** | |
| **Liabilities to other lenders (miscellaneous)** | | | | |
| Fixed interest | EUR | 6,149 | 6,149 | 1.34 |
| Fixed and floating-rate interest | EUR | 21,983 | 21,983 | 1.17 |
| Floating-rate interest | USD | 2,668 | 2,194 | 3.63 |
| | | | **30,326** | |
| **Total** | | | **729,778** | |
| Thereof current | | | 192,745 | |
| Thereof non-current | | | 537,033 | |

[1] Revolving loan agreements and checking accounts.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## Financial liabilities (previous year) EUR '000

| 31/12/2013 | Currency | Nominal value | Carrying amount | Average effective yield in % |
|---|---|---|---|---|
| **Bond** | | | | |
| Fixed interest | EUR | 120,000 | 119,609 | 3.91 |
| | | | **119,609** | |
| **Private placements** | | | | |
| Fixed interest | EUR | 139,500 | 139,049 | 3.07 |
| Floating-rate interest | EUR | 89,500 | 89,287 | 1.87 |
| | | | **228,335** | |
| **Liabilities to banks** | | | | |
| **Loans:** | | | | |
| Fixed interest | EUR | 71,073 | 71,073 | 3.09 |
| Floating-rate interest | EUR | 149,038 | 148,618 | 1.40 |
| Floating-rate interest | USD | 163,333 | 117,020 | 2.54 |
| Floating-rate interest | CNY | 110,480 | 13,222 | 6.53 |
| **Operating loans[1]:** | | | | |
| Floating-rate interest | USD | 19,168 | 14,090 | 2.57 |
| Floating-rate interest | CNY | 455,000 | 54,455 | 6.21 |
| | | | **418,478** | |
| **Lease liabilities** | | | | |
| Fixed interest | EUR | 1,882 | 1,882 | 4.00 |
| | | | **1,882** | |
| **Liabilities to other lenders (miscellaneous)** | | | | |
| Fixed interest | EUR | 5,075 | 5,075 | 1.60 |
| Fixed and floating-rate interest | EUR | 25,416 | 25,416 | 1.52 |
| Floating-rate interest | USD | 2,598 | 1,885 | 3.63 |
| | | | **32,376** | |
| **Total** | | | **800,680** | |
| Thereof current | | | 191,074 | |
| Thereof non-current | | | 609,605 | |

[1] Revolving loan agreements and checking accounts.

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

In financial year 2012, the Lenzing Group issued a private placement. The issue volume amounts to EUR 200,000 thousand. Terms of four and seven years with fixed and floating-rate interest respectively and a term of ten years with fixed interest only were agreed. The average term is around six years. In financial year 2013, the Lenzing Group issued another private placement. The issue volume amounts to EUR 29,000 thousand. A term of five years with fixed interest was agreed. The average effective interest rates of all private placements are shown in the table above.

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 bear floating-rate interest.

Others loans primarily relate to obligations to the Forschungsförderungsfonds der gewerblichen Wirtschaft (Austrian fund for the promotion of research in industry) and the ERP fund and loans from non-controlling shareholders.

Of the reported financial liabilities, EUR 105,452 thousand (December 31, 2013: EUR 130,003 thousand) is collateralized with land charges and other physical security and EUR 0 thousand (December 31, 2013: EUR 0 thousand) is collateralized with receivables. Shares in Biocel Paskov a.s. were pledged to finance the purchase price for the interest in this company.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## NOTE 32 Deferred taxes (deferred tax assets and liabilities)

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

### Deferred tax assets

EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Intangible assets | 19 | 12 |
| Property, plant and equipment | 10,749 | 5,427 |
| Financial assets | 7,692 | 10,276 |
| Other assets | 6,455 | 4,028 |
| Provisions | 17,784 | 14,124 |
| Investment grants | 176 | 175 |
| Other liabilities | 9,934 | 645 |
| Tax loss carryforwards and tax credits (thereof tax credits: EUR 0 thousand; 2013: EUR 133 thousand) | 18,605 | 15,730 |
| **Gross deferred tax assets - before valuation adjustment** | **71,413** | **50,418** |
| Valuation adjustment on deferred tax assets | (10,025) | (5,254) |
| Thereof relating to tax loss carryforwards | (6,835) | (5,236) |
| **Gross deferred tax assets** | **61,388** | **45,164** |
| Offsettable against deferred tax liabilities | (39,855) | (33,893) |
| **Net deferred tax assets** | **21,534** | **11,271** |

### Deferred tax liabilities

EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Intangible assets | 1,400 | 1,550 |
| Property, plant and equipment | 68,830 | 60,844 |
| Financial assets | 842 | 677 |
| Other assets | 4,609 | 2,852 |
| Special depreciation/amortization for tax purposes | 6,004 | 6,087 |
| Provisions | 216 | 401 |
| Investment grants | 321 | 256 |
| Other liabilities | 2,463 | 3,024 |
| **Gross deferred tax liabilities** | **84,685** | **75,690** |
| Offsettable against deferred tax assets | (39,855) | (33,893) |
| **Net deferred tax liabilities** | **44,830** | **41,797** |

Of the gross deferred tax assets, EUR 21,742 thousand (December 31, 2013: EUR 11,976 thousand) is due within one year. Of the gross deferred tax liabilities, EUR 4,390 thousand (December 31, 2013: EUR 2,760 thousand) is 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

| | As at 01/01/2013 | Recognized in profit or loss | Recognized in other comprehensive income | Changes in scope of consolidation and other reclassifications | Currency translation adjustment | As at 31/12/2013 = 01/01/2014 | Recognized in profit or loss | Recognized in other comprehensive income | Currency translation adjustment | As at 31/12/2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| Intangible assets | (1,500) | (44) | 0 | 5 | 2 | (1,537) | 155 | 0 | 1 | (1,382) |
| Property, plant and equipment | (52,213) | (7,867) | 0 | 1,948 | 2,715 | (55,417) | 213 | 0 | (2,877) | (58,081) |
| Financial assets | 3,608 | 8,153 | 58 | (2,219) | 0 | 9,599 | (2,552) | (198) | 0 | 6,850 |
| Other assets | 6,169 | (5,067) | 176 | (1) | (101) | 1,176 | (491) | 960 | 201 | 1,846 |
| Special depreciation/ amortization for tax purposes | (4,782) | 100 | 0 | (1,405) | 0 | (6,087) | 83 | 0 | 0 | (6,004) |
| Provisions | 14,093 | (3) | 368 | (514) | (220) | 13,724 | (63) | 3,496 | 411 | 17,568 |
| Investment grants | (1,903) | (79) | 0 | 1,910 | (9) | (81) | (86) | 0 | 22 | (145) |
| Other liabilities | (2,431) | 4 | 85 | 0 | (37) | (2,379) | 4,514 | 5,208 | 127 | 7,471 |
| Tax loss carryforwards and tax credits | 8,673 | 8,598 | 0 | 0 | (1,542) | 15,730 | 1,571 | 0 | 1,304 | 18,605 |
| Valuation allowances | (4,224) | (1,128) | 0 | 0 | 98 | (5,254) | (4,127) | 0 | (644) | (10,025) |
| **Total** | **(34,510)** | **2,668** | **687** | **(277)** | **907** | **(30,526)** | **(783)** | **9,466** | **(1,454)** | **(23,297)** |

As at December 31, 2014, there were tax loss carryforwards of EUR 80,199 thousand in the Group (December 31, 2013: EUR 71,792 thousand). The existing tax loss carryforwards can be utilized as follows:

## Loss carryforwards (measurement basis)

EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| **Total** | **80,199** | **71,792** |
| Thereof capitalized loss carryforwards | 49,895 | 48,032 |
| Thereof non-capitalized loss carryforwards | 30,304 | 23,760 |
| **Possible expiration of non-capitalized loss carryforwards** | | |
| Within 1 year | 36 | 0 |
| Within 2 years | 35 | 37 |
| Within 3 years | 9,525 | 35 |
| Within 4 years | 4,805 | 8,370 |
| Within 5 years | 2,336 | 2,290 |
| Can be carried forward without restrictions | 13,567 | 13,029 |

The recoverability of deferred tax assets is assessed – after deducting the negative temporary differences – on the basis of the future positive tax results according to the planning approved by the Management Board. This planning is also used in the impairment tests (see in particular Note 3 under "Impairments" for details). The assessment of unused tax loss carryforwards and tax credits also takes utilization requirements into account.

As at December 31, 2014, deferred tax receivable surpluses totaling EUR 21,534 thousand (December 31, 2013: EUR 11,271 thousand) were capitalized, thereof mostly at Group entities that generated losses in the past year or in the previous year at EUR 21,512 thousand (December 31, 2013: EUR 11,257 thousand). In turn, these related mainly to a Chinese production site at EUR 15,877 thousand (December 31, 2013: EUR 8,108 thousand) and a Chinese sales location at EUR 5,154 thousand (December 31, 2013: EUR 2,929 thousand). At the Chinese production site, there are tax receivable surpluses totaling EUR 23,162 thousand (December 31, 2013: EUR 10,753 thousand) that have only partially been capitalized. In the past, there was a disadvantageous local cost structure and pricing policy that caused losses. The planning assumes an improvement in the market environment and market positioning (in particular an improvement of the cost structures on the basis of the cost optimization program and reorganization and of the sales prices; see Note 20 for further details of the planning assumptions). In the carryforward period of five years (December 31, 2013: five years), the expected positive tax results lead to a utilization of loss carryforwards in the amount of the capitalized amounts. The excess deferred tax assets are written down. The conditions at the Chinese sales location are somewhat similar. In addition, business development there was influenced by non-recurring bad debt provisions for inventories and receivables. The planning assumes full utilization of tax loss carryforwards. Therefore, the loss carryforwards were capitalized in their entirety.

There are restrictions with regard to the utilization of the non-capitalized loss carryforwards. If it had been possible to utilize all tax loss carryforwards in full, the deferred tax assets from loss carryforwards would have amounted to EUR 18,605 thousand (December 31, 2013: EUR 15,597 thousand) instead of EUR 11,769 thousand (December 31, 2013: EUR 10,361 thousand).

Under deferred tax assets, the financial assets item includes amounts for outstanding sevenths from tax write-downs on investments in accordance with section 12 para 3 no. 2 of the Austrian Corporation Tax Act (österreichisches Körperschaftsteuergesetz – öKStG) totaling EUR 30,781 thousand (December 31, 2013: EUR 34,225 thousand). Sevenths from write-downs were recognized in the amount of EUR 2,722 thousand in the current year (2013: EUR 2,727 thousand).

No deferred tax liabilities were recognized for temporary differences from investments in subsidiaries, joint ventures and associates held by Group companies in the amount of EUR 135,509 thousand (December 31, 2013: EUR 148,344 thousand), as the temporary differences probably will not reverse in the foreseeable future.

## NOTE 33 Provisions

The provisions item of the Lenzing Group breaks down as follows:

### Provisions

EUR ,000

| | Total | | Thereof current | | Thereof non-current | |
|---|---|---|---|---|---|---|
| | 31/12/2014 | 31/12/2013 | 31/12/2014 | 31/12/2013 | 31/12/2014 | 31/12/2013 |
| **Provisions for pensions and similar obligations** | | | | | | |
| Pensions and severance payments | 102,944 | 77,364 | 4,472 | 4,424 | 98,473 | 72,940 |
| Jubilee benefits | 13,858 | 13,320 | 871 | 1,139 | 12,987 | 12,181 |
| | **116,802** | **90,684** | **5,342** | **5,563** | **111,460** | **85,121** |
| **Other provisions** | | | | | | |
| Restructuring measures | 11,243 | 37,211 | 11,243 | 37,211 | 0 | 0 |
| Guarantees and warranties | 2,808 | 4,266 | 1,208 | 1,766 | 1,600 | 2,500 |
| Anticipated losses and other risks | 15,384 | 25,262 | 4,437 | 12,096 | 10,947 | 13,166 |
| Emission certificates | 1,698 | 1,754 | 1,698 | 1,754 | 0 | 0 |
| Other | 6,056 | 8,846 | 56 | 2,846 | 6,000 | 6,000 |
| | **37,189** | **77,338** | **18,642** | **55,673** | **18,547** | **21,666** |
| **Accruals** | | | | | | |
| Staff costs (non-financial) | 34,715 | 37,115 | 34,715 | 37,115 | 0 | 0 |
| Other (financial) | 22,682 | 28,073 | 22,682 | 28,073 | 0 | 0 |
| | **57,397** | **65,187** | **57,397** | **65,187** | **0** | **0** |
| Total | 211,389 | 233,210 | 81,382 | 126,423 | 130,007 | 106,786 |

## Provisions for pensions and similar obligations (incl. restructuring measures)

### 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)

In the case of defined benefit plans for pensions and severance payments, the benefits are based on the final salary and length of service. They do not require any contributions by the employees.

The defined benefit pension plans are based on contractual obligations.

The Lenzing Group's most significant defined benefit pension plan is in Austria. This defined benefit pension plan 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 years of service. A retirement age of 58 to 63 years is assumed for the beneficiaries, depending on their gender. At present, the plan mainly covers employees who have already retired. In some cases, there are qualifying insurance policies recognized as plan assets and part of obligations are covered by securities that do not qualify as plan assets.

There are also pension plans in Hong Kong and Germany. The defined benefit pension plan in Hong Kong applies to employees who joined the Group before January 1, 2000 and decided to remain in the plan. It is chiefly financed by employer contributions to an external pension fund. The level of the employer 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 pension plan in Germany applies to employees who joined the Group before June 1, 2005 and whose pensionable income exceeds the contribution assessment ceiling for statutory pension insurance. The claims arise after a vesting period of five years. There are no assets covering the defined benefit pension plans in Germany; they are financed entirely with provisions.

The defined benefit severance plans are based on statutory obligations and obligations under collective agreements.

The Lenzing Group's most significant defined benefit severance plan is in Austria. Under this plan, employees whose employment relationships are subject to Austrian law and started before January 1, 2003 are legally entitled 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 amount of the employee's salary at the time the employment relationship is terminated and on the length of the employment relationship.

There are also significant similar defined benefit severance plans in Indonesia and the Czech Republic. Here they apply to all employees irrespective of when they joined the Group. There are no assets covering the defined benefit severance plans; they are financed entirely with provisions.

The defined benefit pension and severance plans primarily involve the following risks that influence the amount of the obligations to be recognized:

- **Investment risk:** The present value of the obligations and plan assets is calculated using a discount rate derived from high-quality fixed-income corporate bonds (see Note 3). If the return on plan assets falls short of this rate, this 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:** The obligations are measured based on assumed future salary and pension trends. If the actual development is higher than the currently assumed trend, this will result in an increase in the obligations.

- **Personnel turnover and departure risk:** In measuring the obligations, probabilities of departure depending on the length of service are calculated for each country. A decrease in the anticipated personnel turnover rates will result in an increase in the obligations.

- **Longevity risk:** The obligations are calculated taking account of the average life expectancy on the basis of country-specific biometric data. A rise 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 measures to reduce the risks from defined benefit plans. These include in particular financing the defined benefit plans externally with plan assets or covering the obligations with securities that do not qualify as plan assets, and settling existing defined benefit plans with installments. In addition, new defined benefit plans are now only concluded in the form of defined contribution commitments, where possible and legally permissible.

The objectives of the investment policy are to create an optimized composition of the plan assets and ensure that they cover the existing claims of the employees concerned. The investment strategies (asset allocations) for the plan assets are contractually regulated. A reinsurance policy has been concluded for part of the claims from the Austrian pension plan and is shown under plan assets. This policy is a conventional life insurance policy that chiefly invests in debt instruments in line with the maturity profile of the underlying claims with the aim of high investment security. To a lesser extent, the insurance policy's premium reserve fund also includes real property assets and equity instruments. The policy offers a guaranteed minimum return. The Lenzing Group no longer pays contributions to the insurance. The pension fund for covering the defined benefit plans as plan assets in Hong Kong invests with the goal of a medium-term to long-term performance that exceeds the inflation rate. To achieve this goal, it primarily invests in equity instruments. Details of the breakdown of plan assets as at the reporting date can be found in the table further below.

The main actuarial parameters applied for defined benefit pension and severance plans are as follows:

### Actuarial assumptions for defined benefit pension and severance plans

| Discount rate p.a. in % | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Austria - pensions | 1.7 | 3.0 |
| Austria - severance payments | 1.8 | 3.3 |
| Other countries: | | |
| Germany | 2.5 | 4.0 |
| Indonesia | 7.8 | 9.0 |
| Hong Kong | 1.8 | 2.3 |
| Czech Republic | 1.2 | 3.0 |
| **Salary increases p.a. in %** | | |
| Austria - pensions | 3.0 | 3.0 |
| Austria - severance payments | 3.0 | 3.0 |
| Other countries: | | |
| Germany | 2.3 | 2.5 |
| Indonesia | 8.0 | 8.0 |
| Hong Kong | 4.5 | 5.0 |
| Czech Republic | 2.5 | 3.0 |
| **Pension increases p.a. in %** | | |
| Austria - pensions | 0.0-3.0 | 0.0-3.0 |
| Austria - severance payments | N/A | N/A |
| Other countries: | | |
| Germany | 1.8 | 2.0 |
| Indonesia | N/A | N/A |
| Hong Kong | N/A | N/A |
| Czech Republic | N/A | N/A |
| **Staff turnover deductions p.a. in %** | | |
| Austria - pensions | 0.0 | 0.0 |
| Austria - severance payments | 0.0-4.4 | 0.0-4.2 |
| Other countries: | | |
| Germany | 0.0-12.5 | 0.0-12.5 |
| Indonesia | 2.0-10.0 | 2.0-10.0 |
| Hong Kong | 0.0 | 0.0 |
| Czech Republic | 1.0 | 0.0 |

In both financial years, the defined benefit pension plans in Austria were calculated using the biometric data from Pagler & Pagler AVÖ 2008 P – bases for calculating pension insurance for salaried employees. The defined benefit severance plans in Austria were calculated in both financial years using a personnel turnover rate that includes all reasons for departure without entitlement to severance payments.

In the other countries, the following biometric data and assumptions are used:

- **Indonesia:** Indonesia mortality table (Tabel Mortalita Indonesia TMI 2011)
- **Germany:** 2005 G actuarial tables (Heubeck)
- **Czech Republic:** AVÖ 2008-P (Pagler & Pagler)
- **Others:** Due to the low number of beneficiaries, no biometric assumptions were made.

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

## Carrying amounts from defined benefit pension and severance plans (incl. restructuring measures) EUR '000

| 31/12/2014 | Pensions in Austria | Severance payments in Austria | Pensions and severance payments in other countries | Total |
|---|---|---|---|---|
| Present value of obligations covered by plan assets (DBO) - gross | 29,156 | 0 | 1,469 | 30,625 |
| Fair value of plan assets | (3,531) | 0 | (1,243) | (4,774) |
| Present value of obligations covered by plan assets (DBO) - net | 25,626 | 0 | 225 | 25,851 |
| Present value of obligations not covered by plan assets (DBO) | 0 | 68,197 | 11,595 | 79,792 |
| **Amounts recognized in statement of financial position[1]** | **25,626** | **68,197** | **11,821** | **105,643** |
| Thereof reported under: | | | | |
| Pensions and severance payments - non-current | 23,556 | 63,588 | 11,328 | 98,473 |
| Pensions and severance payments - current | 2,070 | 1,910 | 492 | 4,472 |
| Restructuring measures - current | 0 | 2,699 | 0 | 2,699 |
| **Total** | **25,626** | **68,197** | **11,821** | **105,643** |

## Carrying amounts from defined benefit pension and severance plans (incl. restructuring measures) (previous year) EUR '000

| 31/12/2013 | Pensions in Austria | Severance payments in Austria | Pensions and severance payments in other countries | Total |
|---|---|---|---|---|
| Present value of obligations covered by plan assets (DBO) - gross | 27,197 | 0 | 1,206 | 28,403 |
| Fair value of plan assets | (3,648) | 0 | (1,036) | (4,684) |
| Present value of obligations covered by plan assets (DBO) - net | 23,549 | 0 | 170 | 23,719 |
| Present value of obligations not covered by plan assets (DBO) | 0 | 61,196 | 9,921 | 71,117 |
| **Amounts recognized in statement of financial position[2]** | **23,549** | **61,196** | **10,091** | **94,836** |
| Thereof reported under: | | | | |
| Pensions and severance payments - non-current | 21,486 | 42,378 | 9,076 | 72,940 |
| Pensions and severance payments - current | 2,063 | 2,263 | 98 | 4,424 |
| Restructuring measures - current | 0 | 16,555 | 917 | 17,472 |
| **Total** | **23,549** | **61,196** | **10,091** | **94,836** |

[1] Incl. other provisions for restructuring measures EUR 2,699 thousand. [2] Incl. other provisions for restructuring measures EUR 17,472 thousand.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

The net liability (provision) for defined benefit pension and severance plans (incl. restructuring measures) developed as follows:

## Net liability (provision) for defined benefit pension and severance plans (incl. restructuring measures) EUR ’000

| 2014 | Pensions in Austria | Severance payments in Austria | Pensions and severance payments in other countries | Total |
|---|---|---|---|---|
| **Net liability (provision) as at 01/01[1]** | **23,549** | **61,196** | **10,091** | **94,836** |
| Expense for the period (profit or loss): | | | | |
| Current service cost | 9 | 2,528 | 748 | 3,285 |
| Past service cost | 0 | 0 | 422 | 422 |
| Expense from settlement of plans[2] | 0 | 1,073 | 290 | 1,363 |
| Net interest | 679 | 1,968 | 780 | 3,427 |
| Administrative and other costs | 0 | 0 | 1 | 1 |
| Remeasurement of period (other comprehensive income) | 3,260 | 9,936 | 700 | 13,896 |
| Cash flows | (1,871) | (8,505) | (2,031) | (12,407) |
| Currency translation adjustment | 0 | 0 | 820 | 820 |
| **Net liability (provision) as at 31/12[3]** | **25,626** | **68,197** | **11,821** | **105,643** |
| Thereof pensions and severance payments | 25,626 | 65,498 | 11,821 | 102,944 |
| Thereof restructuring measures | 0 | 2,699 | 0 | 2,699 |

## Net liability (provision) for defined benefit pension and severance plans (incl. restructuring measures) (previous year) EUR ’000

| 2013 | Pensions in Austria | Severance payments in Austria | Pensions and severance payments in other countries | Total |
|---|---|---|---|---|
| **Net liability (provision) as at 01/01** | **22,456** | **63,025** | **13,747** | **99,228** |
| Expense for the period (profit or loss): | | | | |
| Current service cost | 8 | 2,504 | 903 | 3,415 |
| Past service cost | 0 | 0 | 33 | 33 |
| Net interest | 755 | 2,094 | 673 | 3,521 |
| Administrative and other costs | 0 | 0 | 1 | 1 |
| Remeasurement of period (other comprehensive income) | 2,233 | 1,092 | (1,957) | 1,369 |
| Changes in scope of consolidation | 0 | (3,593) | 0 | (3,593) |
| Obligations assumed | 0 | 0 | 3 | 3 |
| Cash flows | (1,903) | (3,926) | (872) | (6,701) |
| Currency translation adjustment | 0 | 0 | (2,440) | (2,440) |
| **Net liability (provision) as at 31/12[1]** | **23,549** | **61,196** | **10,091** | **94,836** |
| Thereof pensions and severance payments | 23,549 | 44,641 | 9,174 | 77,364 |
| Thereof restructuring measures | 0 | 16,555 | 917 | 17,472 |

[1] Incl. other provisions for restructuring measures EUR 17,472 thousand. [2] The expense from settlement of plans was already recognized in profit or loss in connection with the other provision for restructuring measures in the previous year, so does not affect income in the 2014 financial year. [3] Incl. other provisions for restructuring measures EUR 2,699 thousand.

Plan settlements in the 2014 financial year are linked to the group-wide headcount reductions and the resulting payments (refer to the notes on other provisions for restructuring measures further down in this chapter).

The net liability (provision) of the defined benefit pension and severance plans shown above comprises the present value of the pension and severance payment obligation (incl. restructuring measures) (defined benefit obligation/DBO) less the fair value of the plan assets. These two components of the net liability developed as follows:

## Present value of the pension and severance payment obligation (incl. restructuring measures) EUR '000

| 2014 | Pensions in Austria | Severance payments in Austria | Pensions and severance payments in other countries | Total |
|---|---|---|---|---|
| **Present value of obligation (DBO) as at 01/01[1]** | **27,197** | **61,196** | **11,127** | **99,520** |
| Service cost (profit or loss): | | | | |
| Current service cost | 9 | 2,528 | 748 | 3,285 |
| Past service cost | 0 | 0 | 422 | 422 |
| Expense from settlement of plans[2] | 0 | 1,073 | 290 | 1,363 |
| Interest expense (profit or loss) | 784 | 1,968 | 805 | 3,557 |
| Cash flows: | | | | |
| Payments made from the plan | (280) | 0 | 0 | (280) |
| Direct payments of employer | (1,871) | (1,736) | (804) | (4,411) |
| Settlement payments | 0 | (6,769) | (1,185) | (7,953) |
| Remeasurement of period (other comprehensive income): | | | | |
| On the basis of demographic assumptions | 0 | 0 | (158) | (158) |
| On the basis of financial assumptions | 3,338 | 10,213 | 1,359 | 14,910 |
| Due to experience adjustments | (20) | (277) | (504) | (801) |
| Currency translation adjustment | 0 | 0 | 964 | 964 |
| **Present value of obligation (DBO) as at 31/12[3]** | **29,156** | **68,197** | **13,064** | **110,417** |
| Thereof pensions and severance payments | 29,156 | 65,498 | 13,064 | 107,718 |
| Thereof restructuring measures | 0 | 2,699 | 0 | 2,699 |

1) Incl. other provisions for restructuring measures EUR 17,472 thousand. 2) The expense from settlement of plans was already recognized in profit or loss in connection with the other provision for restructuring measures in the previous year, so does not affect income in the 2014 financial year. 3) Incl. other provisions for restructuring measures EUR 2,699 thousand.

## Present value of the pension and severance payment obligation (incl. restructuring measures) (previous year) EUR ’000

| 2013 | Pensions in Austria | Severance payments in Austria | Pensions and severance payments in other countries | Total |
|---|---|---|---|---|
| **Present value of obligation (DBO) as at 01/01** | **26,219** | **63,025** | **14,692** | **103,936** |
| Changes in scope of consolidation | 0 | (3,593) | 0 | (3,593) |
| Obligations assumed | 0 | 0 | 3 | 3 |
| Service cost (profit or loss): | | | | |
| Current service cost | 8 | 2,504 | 903 | 3,415 |
| Past service cost | 0 | 0 | 33 | 33 |
| Interest expense (profit or loss) | 882 | 2,094 | 679 | 3,654 |
| Cash flows: | | | | |
| Payments made from the plan | (279) | 0 | 0 | (279) |
| Direct payments of employer | (1,903) | (3,926) | (832) | (6,661) |
| Remeasurement of period (other comprehensive income): | | | | |
| On the basis of financial assumptions | 1,207 | 1,251 | (2,165) | 293 |
| Due to experience adjustments | 1,064 | (159) | 295 | 1,200 |
| Currency translation adjustment | 0 | 0 | (2,480) | (2,480) |
| **Present value of obligation (DBO) as at 31/12[1]** | **27,197** | **61,196** | **11,127** | **99,520** |
| Thereof pensions and severance payments | 27,197 | 44,641 | 10,210 | 82,048 |
| Thereof restructuring measures | 0 | 16,555 | 917 | 17,472 |

## Fair value of plan assets EUR ’000

| 2014 | Pensions in Austria | Severance payments in Austria | Pensions and severance payments in other countries | Total |
|---|---|---|---|---|
| **Fair value of plan assets as at 01/01** | **3,648** | **0** | **1,036** | **4,684** |
| Interest income (profit or loss) | 105 | 0 | 25 | 130 |
| Cash flows: | | | | |
| Payments made to the plan (employer contributions) | 0 | 0 | 42 | 42 |
| Payments made from the plan | (280) | 0 | 0 | (280) |
| Administrative and other costs | 0 | 0 | (1) | (1) |
| Remeasurement of period on the basis of return on plan assets excluding amounts included in interest income (other comprehensive income) | 58 | 0 | (3) | 55 |
| Currency translation adjustment | 0 | 0 | 144 | 144 |
| **Fair value of plan assets as at 31/12** | **3,531** | **0** | **1,243** | **4,774** |

[1] Incl. other provisions for restructuring measures EUR 17,472 thousand.

## Fair value of plan assets (previous year) EUR '000

| 2013 | Pensions in Austria | Severance payments in Austria | Pensions and severance payments in other countries | Total |
|---|---|---|---|---|
| **Fair value of plan assets as at 01/01** | **3,763** | **0** | **945** | **4,708** |
| Interest income (profit or loss) | 127 | 0 | 6 | 132 |
| Cash flows: | | | | |
| Payments made to the plan (employer contributions) | 0 | 0 | 40 | 40 |
| Payments made from the plan | (279) | 0 | 0 | (279) |
| Administrative and other costs | 0 | 0 | (1) | (1) |
| Remeasurement of period on the basis of return on plan assets excluding amounts included in interest income (other comprehensive income) | 37 | 0 | 90 | 127 |
| Currency translation adjustment | 0 | 0 | (43) | (43) |
| **Fair value of plan assets as at 31/12** | **3,648** | **0** | **1,036** | **4,684** |

The plan assets break down by asset class as follows:

## Breakdown of plan assets EUR '000

| 31/12/2014 | Pensions in Austria | Severance payments in Austria | Pensions and severance payments in other countries | Total |
|---|---|---|---|---|
| Cash and cash equivalents | 0 | 0 | 98 | 98 |
| Equity instruments | 0 | 0 | 920 | 920 |
| Debt instruments | 0 | 0 | 225 | 225 |
| Insurance policies qualifying as plan assets | 3,531 | 0 | 0 | 3,531 |
| **Balance** | **3,531** | **0** | **1,243** | **4,774** |

## Breakdown of plan assets (previous year) EUR '000

| 31/12/2013 | Pensions in Austria | Severance payments in Austria | Pensions and severance payments in other countries | Total |
|---|---|---|---|---|
| Cash and cash equivalents | 0 | 0 | 21 | 21 |
| Equity instruments | 0 | 0 | 816 | 816 |
| Debt instruments | 0 | 0 | 200 | 200 |
| Insurance policies qualifying as plan assets | 3,648 | 0 | 0 | 3,648 |
| **Balance** | **3,648** | **0** | **1,036** | **4,684** |

The fair values of the equity and debt instruments shown above are determined based on price quotations on an active market. The fair value of the insurance policy is not determined on an active market; it corresponds to the cover funds reported in the statement of financial position of the insurance company. The insurance company chiefly invests in debt instruments and, to a lesser extent, in real property assets and equity instruments. 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 amounts to EUR 186 thousand (return in 2013: EUR 259 thousand).

Sensitivity analyses are performed for the risk of changes in actuarial parameters for measuring the present value of the obligations from defined benefit plans. The sensitivity analyses show the effects on the present value of the obligations from hypothetical changes in key parameters that could reasonably have changed on the reporting date. This relates to the parameters of discount rates, salary increases and pension increases. In each case, one parameter was changed while the other parameters were kept constant. The sensitivity analyses are performed based on the present values of the obligations as at the reporting date before deducting plan assets (defined benefit obligation/DBO) and before reclassification to other provisions for restructuring measures. The sensitivities of the parameters are as follows as at the reporting dates:

### Sensitivity analysis of the defined benefit pension and severance payment obligations

| 31/12/2014 | 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 | 12,669 | (10,756) |
| Salary increase | 1.0 | (7,747) | 8,917 |
| Pension increase | 1.0 | (2,759) | 3,169 |

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

| 31/12/2013 | 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 | 10,733 | (9,176) |
| Salary increase | 1.0 | (6,676) | 7,647 |
| Pension increase | 1.0 | (2,387) | 2,732 |

The sensitivity analyses shown above represent hypothetical changes based on the assumptions made. Actual deviations from the assumptions will result in other effects. In particular, the parameters altered on an isolated basis above may correlate with one another in reality. 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 in years

Years

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Austria - pensions | 10 | 10 |
| Austria - severance payments | 11-16 | 10-14 |
| Other countries | | |
| Germany | 21 | 20 |
| Indonesia | 8 | 15 |
| Hong Kong | 9 | 12 |
| Czech Republic | 10 | 9 |

The Lenzing Group expects contributions for the pension and severance plans to amount to EUR 44 thousand in the coming year (2013: EUR 42 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 Lenzing Group's most significant defined contribution pension and severance plans are in Austria. The defined contribution pension plan in Austria is based on contractual obligations. It applies to all employees who joined the Group after December 31, 1999, with the exception of apprentices, and to employees who joined before this date and decided to change from the defined benefit pension plan to this plan. Starting from the beginning of the employment relationship or from a certain length of service, a certain percentage that depends on the beneficiary's salary is paid into an external pension fund by the employer. Each beneficiary is entitled to make their own contribution, the maximum amount of which is equivalent to the amount that the employer makes for the beneficiary. The claims generally become vested five years after the employer begins paying contributions.

The defined contribution severance plan in Austria is based on statutory obligations ("new severance payment system"). Under this plan, the Lenzing Group must pay 1.53% of the gross salary into an employee provision fund in the case of employees whose employment relationships are subject to Austrian law and started after December 31, 2002.

Most of the Lenzing Group's foreign locations also offer defined contribution pension plans, the majority of which are based on contractual obligations and cover almost all employees at the respective locations. Depending on the contractual arrangement, a certain percentage of the beneficiaries' remuneration is paid to an external fund or insurance company. The claims either become vested immediately or have a vesting period of up to several years, depending on the contract.

Under defined contribution plans, the Lenzing Group's obligation is only to pay agreed contributions into a fund. In this case, actuarial risk and investment risk are assumed by the employee. Therefore, no provisions or other accruals are recognized after the agreed contributions have been paid.

Expenses for defined contribution plans break down as follows:

### Expenses for defined contribution plans EUR '000

| | 2014 | 2013 |
|---|---|---|
| Austria - pensions | 1,420 | 1,304 |
| Austria - severance payments | 1,134 | 1,113 |
| Other countries | 2,174 | 1,934 |
| **Total** | **4,728** | **4,350** |

## Provisions for jubilee benefits

On the basis of collective agreement regulations, Lenzing AG and a number of subsidiaries, particularly Austrian, German and Czech subsidiaries, are required to pay jubilee benefits to employees who have been with the company for a certain length of time. These payments are based on the amount of the salary at the time of the relevant employee anniversary and are payable as at the employee anniversary. No assets have been eliminated from the company and no contributions have been made to a pension fund or any other external fund to cover these obligations. They do not require any contributions by the employees.

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

## Actuarial assumptions for the obligations for jubilee benefits

| Discount rate p.a. in % | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Austria | 1.7 | 3.1 |
| Germany | 1.8 | 3.0 |
| Czech Republic | 0.6 | 3.0 |
| **Salary increases p.a. in %** | | |
| Austria | 3.0 | 3.0 |
| Germany | 2.3 | 2.5 |
| Czech Republic | N/A | N/A |
| **Staff turnover deductions p.a. in %** | | |
| Austria | 1.2-7.5 | 1.3-7.0 |
| Germany | 0.0-12.5 | 0.0-12.5 |
| Czech Republic | 1.0 | N/A |

In both financial years, the obligations for jubilee benefits in Austria were calculated using a personnel turnover rate that depends on the length of service and includes all reasons for departure. In the other countries, there are country-specific assumptions regarding personnel turnover probabilities and biometric data.

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

## Development of the obligation (provision) for jubilee benefits EUR '000

| | 2014 | 2013 |
|---|---|---|
| Present value of obligation (DBO) as at 01/01 | 13,320 | 13,774 |
| Changes in scope of consolidation | 0 | (929) |
| Current service cost (profit or loss) | 666 | 674 |
| Past service cost (profit or loss) | 15 | 0 |
| Interest expense (profit or loss) | 394 | 447 |
| Remeasurement of period (profit or loss): | | |
| On the basis of demographic assumptions | (2) | 0 |
| On the basis of financial assumptions | 1,774 | 487 |
| Due to experience adjustments | (1,246) | 148 |
| Direct payments of employer | (1,062) | (1,274) |
| Currency translation adjustment | (1) | (7) |
| **Present value of obligation (DBO) as at 31/12** | **13,858** | **13,320** |

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## Other provisions and accruals

Other provisions and accruals developed as follows:

### Development of other provisions and accruals

| 2014 | As at 01/01 | Currency translation adjustment | Changes in scope of consolidation | Reclassification to liabilities held for sale, disposal groups and other reclassifications |
|---|---|---|---|---|
| **Other provisions** | | | | |
| Restructuring measures | 37,211 | 220 | 0 | (8,556) |
| Guarantees and warranties | 4,266 | 0 | 0 | 0 |
| Anticipated losses and other risks | 25,262 | 130 | 0 | 0 |
| Emission certificates | 1,754 | 0 | 0 | 0 |
| Other | 8,846 | 81 | 0 | 0 |
| | **77,338** | **430** | **0** | **(8,556)** |
| **Accruals** | | | | |
| Staff costs (non-financial) | 37,115 | 469 | 0 | 0 |
| Other (financial) | 28,073 | 1,393 | 0 | 0 |
| | **65,187** | **1,863** | **0** | **0** |
| **Total** | **142,526** | **2,293** | **0** | **(8,556)** |

### Development of other provisions and accruals (previous year)

| 2013 | As at 01/01 | Currency translation adjustment | Changes in scope of consolidation | Reclassification to liabilities held for sale, disposal groups and other reclassifications |
|---|---|---|---|---|
| **Other provisions** | | | | |
| Restructuring measures | 0 | (8) | 0 | 17,472 |
| Guarantees and warranties | 12,294 | (1) | (2,187) | 0 |
| Anticipated losses and other risks | 7,918 | (9) | 0 | 0 |
| Emission certificates | 2,757 | (52) | 0 | 0 |
| Other | 21,212 | (93) | (953) | 0 |
| | **44,181** | **(164)** | **(3,140)** | **17,472** |
| **Accruals** | | | | |
| Staff costs (non-financial) | 37,709 | (349) | (2,068) | 0 |
| Other (financial) | 26,798 | (385) | (917) | 0 |
| | **64,507** | **(734)** | **(2,985)** | **0** |
| **Total** | **108,688** | **(898)** | **(6,125)** | **17,472** |

[1] The utilization of the provision for restructuring measures includes the statutory severance payment of EUR 6,769 thousand. [2] Incl. reclassification from severance or pension provisions EUR 2,699 thousand. [3] Incl. reclassification from severance or pension provisions EUR 17,472 thousand.

EUR '000

| Utilization | Reversal | Additions | Accrued interest | As at 31/12 | Thereof current | Thereof non-current |
|---|---|---|---|---|---|---|
| | | | | | | |
| (16,322)[1] | (5,891) | 4,582 | 0 | 11,243[2] | 11,243 | 0 |
| (267) | (1,774) | 583 | 0 | 2,808 | 1,208 | 1,600 |
| (7,249) | (4,148) | 550 | 839 | 15,384 | 4,437 | 10,947 |
| (1,612) | 0 | 1,557 | 0 | 1,698 | 1,698 | 0 |
| (1,544) | (1,327) | 0 | 0 | 6,056 | 56 | 6,000 |
| **(26,993)** | **(13,140)** | **7,271** | **839** | **37,189** | **18,642** | **18,547** |
| | | | | | | |
| (34,085) | (1,182) | 32,398 | 0 | 34,715 | 34,715 | 0 |
| (20,265) | (6,270) | 19,750 | 0 | 22,682 | 22,682 | 0 |
| **(54,349)** | **(7,452)** | **52,148** | **0** | **57,397** | **57,397** | **0** |
| (81,342) | (20,592) | 59,419 | 839 | 94,587 | 76,040 | 18,547 |

EUR '000

| Utilization | Reversal | Additions | Accrued interest | As at 31/12 | Thereof current | Thereof non-current |
|---|---|---|---|---|---|---|
| | | | | | | |
| 0 | 0 | 19,747 | 0 | 37,211[3] | 37,211 | 0 |
| (268) | (6,245) | 673 | 0 | 4,266 | 1,766 | 2,500 |
| (1,890) | (868) | 19,218 | 893 | 25,262 | 12,096 | 13,166 |
| (2,708) | 0 | 1,757 | 0 | 1,754 | 1,754 | 0 |
| (2,060) | (12,400) | 3,140 | 0 | 8,846 | 2,846 | 6,000 |
| **(6,926)** | **(19,514)** | **44,536** | **893** | **77,338** | **55,673** | **21,666** |
| | | | | | | |
| (31,213) | (789) | 33,825 | 0 | 37,115 | 37,115 | 0 |
| (18,830) | (5,120) | 26,526 | 0 | 28,073 | 28,073 | 0 |
| **(50,043)** | **(5,908)** | **60,351** | **0** | **65,187** | **65,187** | **0** |
| (56,969) | (25,422) | 104,887 | 893 | 142,526 | 120,860 | 21,666 |

Other provisions for restructuring measures particularly relate to provisioning due to the headcount reduction as part of the reorganization and the cost optimization program “excelLENZ” in the 2013 financial year. These measures were extended in the engineering and maintenance areas and Lenzing Technik in the 2014 financial year. As a result of the reorganization, the entire Lenzing Group was realigned in organizational terms, with the production operations as well as the sales and marketing organization being strengthened in particular. In addition, the focus of the organization was geared even more strongly towards the most important fiber markets, Asia and Turkey. The engineering and maintenance areas and Lenzing Technik were reorganized. Restructuring measures are continuously implemented and new measures to support the realignment of the technical functions and the other areas are evaluated. As part of the accompanying cost optimization program, savings in material costs, operating expenses, overheads and personnel costs and increases in operating efficiency were planned or already implemented. Provisions have been recognized particularly for the resulting severance payments and settlements. Provisions in the amount of EUR 17,472 thousand that had already been set aside in the 2013 financial year (particularly from the regular severance payment provision; see section on “Defined benefit plans” above) were used for this and are reported in provisions for restructuring measures as at December 31, 2013. An amount not used of EUR 8,556 thousand was reclassified to the severance payment provision in the 2014 financial year. The top-up for the necessary provisions was recognized (2013: EUR 19,747 thousand) or released (2014: EUR 1,309 thousand net; each adjusted for minor currency translation differences) in personnel expenses and other operating expenses.

Other provisions for guarantees and warranties mainly include 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 mainly include provisions for obligations from infrastructure services to be performed and provisions for additional claims from procurement contracts and other onerous contracts. Other provisions for emission certificates comprise the equivalent value of the emission certificates used.

Miscellaneous other provisions primarily relate to obligations for legal disputes of EUR 6,000 thousand (December 31, 2013: EUR 6,000 thousand) as well as mandatory maintenance expenses. Legal disputes particularly include the provision for legal proceedings in which the Lenzing Group is taking action against patent infringements. Mandatory maintenance expenses relate to expenses for the maintenance of assets for which there is a legal or constructive obligation.

Accruals for personnel costs primarily include liabilities for short-term claims of existing and former employees (particularly for vacation and comp time not yet taken, overtime and performance bonuses).

Other accruals chiefly comprise anticipated losses of income from revenue reductions/increases in expenses from transactions with customers and suppliers (particularly discounts and rebates) and liabilities for goods deliveries and services already performed by third parties but not yet invoiced.

In the case of other short-term provisions and accruals, it is considered likely that the outflow of funds will take place within the next 12 months. In the case of the long-term portion of other provisions, the outflow of funds depends on various different factors (particularly guarantee and warranty periods, contract terms and other events):

- In the case of other provisions for guarantees and warranties, the outflow of funds is expected by December 31, 2020 at the latest (December 31, 2013: by December 31, 2020 at the latest).
- In the case of other provisions for anticipated losses and other risks, the outflow of funds is expected by:

### Expected outflow of funds in the case of other provisions for anticipated losses and other risks (estimated as of the reporting date)

EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| In the 2nd year | 2,876 | 5,885 |
| In the 3rd to 5th year | 5,226 | 3,990 |
| In the 6th to 10th year | 1,685 | 2,184 |
| Thereafter | 1,161 | 1,106 |
| **Total** | **10,947** | **13,166** |

In the case of miscellaneous other provisions (the legal disputes), the exact timing of the outflow of funds is currently uncertain; previous developments indicate that the outflow of funds is probably not to be expected within the next 12 months.

## NOTE 34 Puttable non-controlling interests

Puttable non-controlling interests developed as follows:

### Development of the carrying amounts of puttable non-controlling interests

EUR '000

| | 2014 | 2013 |
|---|---|---|
| **Carrying amount as at 01/01** | **19,534** | **16,373** |
| Changes in scope of consolidation | 0 | 11,973 |
| Share of annual result | (8,818) | (8,430) |
| Share of other comprehensive income | 0 | 8 |
| Currency translation adjustment | 1,693 | (391) |
| **Carrying amount as at 31/12** | **12,410** | **19,534** |
| Thereof recognized under: | | |
| Non-current liabilities | 12,410 | 19,534 |

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## NOTE 35 Other liabilities and trade payables

Other liabilities break down as follows:

### Other liabilities EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| **Other non-current financial liabilities** | | |
| Derivatives not yet settled (open positions) | 4,494 | 645 |
| Deferred interest and other | 807 | 4 |
| | **5,301** | **649** |
| **Other non-current liabilities (non-financial)** | | |
| Partial retirement | 2,240 | 1,596 |
| Deferred income | 100 | 57 |
| | **2,339** | **1,653** |
| **Total other non-current liabilities** | **7,640** | **2,302** |
| **Other current financial liabilities** | | |
| Derivatives not yet settled (open positions) | 29,514 | 3,111 |
| Customer payments from factoring not yet forwarded | 17,211 | 0 |
| Liabilities from recourse on bills of exchange | 11,802 | 0 |
| Debtors with credit balances | 1,350 | 1,458 |
| Other | 4,404 | 4,430 |
| | **64,282** | **8,999** |
| **Other current liabilities (non-financial)** | | |
| Liabilities from other taxes | 3,773 | 3,974 |
| Wage and salary liabilities | 6,070 | 5,274 |
| Social security liabilities | 4,743 | 4,751 |
| Partial retirement | 1,738 | 1,017 |
| Advance payments received | 9,799 | 11,468 |
| Deferred income | 88 | 57 |
| | **26,212** | **26,541** |
| **Total other current liabilities** | **90,493** | **35,540** |

A supplier of the Lenzing Group finances its trade receivables from the Lenzing Group with a reverse factoring agreement. From the Lenzing Group's perspective, this agreement does not result in a reclassification of the affected trade payables to another kind of liability according either to civil law or IFRS regulations. As at December 31, 2014, this affected trade payables totaling EUR 67,389 thousand (December 31, 2013: EUR 49,065 thousand).

## Notes on the Consolidated Cash Flow Statement

### NOTE 36 Liquid funds

The cash flow statement shows how liquid funds changed during the year under review as a result of cash inflows and outflows. Liquid funds break down as follows:

**Liquid funds** EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Cash and cash equivalents | 271.791 | 287.882 |
| **Total** | **271.791** | **287.882** |

### NOTE 37 Other disclosures on the consolidated cash flow statement

Gross cash flow equals cash flow from operating activities before change in working capital. Working capital comprises inventories, trade receivables, other non-current and current assets, current provisions, trade payables, and other non-current and current liabilities.

Other non-cash income/expenses mainly include the allocation of profit or loss to puttable non-controlling interests of EUR -8,818 thousand (2013: EUR -9,049 thousand) and the impairment of financial assets and other non-current financial assets of EUR 1,440 thousand (2013: EUR 9 thousand). In addition, other non-cash income/expenses contain unrealized net exchange rate gains/losses and measurement effects from receivables and inventories.

In the sale of stakes to non-controlling shareholders payments of EUR 2 thousand were made to the Lenzing Group in 2014 (see also Note 4).

In the acquisition of non-controlling interests by the Lenzing Group, payments of EUR 3,471 thousand were made to the shareholders of the non-controlling interests in 2014 (see also Note 4).

The net cash flows from discontinued operations in 2013 include, in particular, the net inflow from the disposal of subsidiaries of EUR 61,652 thousand (see also Note 5) and payments for the acquisition of intangible assets and property, plant and equipment of the former Business Unit Plastics in the amount of EUR -2,671 thousand.

## Notes on Capital Risk Management and Financial Instruments

### NOTE 38 Capital risk management

#### Fundamentals

The Lenzing Group manages its equity and debt capital with the clear objective of optimizing the income, costs and assets of the individual operations/business units and of the Group as a whole so as to achieve a sustainably high economic performance and a sound balance sheet structure. Important factors here include financial leverage capacity, sufficient liquidity at all times and a clear focus on cash-related key figures and performance indicators in view of the Group's strategic course and long-term goals.

This ensures that the Group companies can operate on a going concern basis. In addition, the authorized capital and the contingent capital contribute to enabling Lenzing AG to raise additional equity flexibly in order to take advantage of market opportunities that arise in the future.

Lenzing AG is subject to the minimum capital requirements of Austrian company law. There are no minimum capital requirements stipulated in the Articles of Association. The Lenzing Group's equity management strategy is aimed at ensuring that Lenzing AG and the other Group companies have capital resources that fulfill the local requirements. Some loan agreements with banks also include financial covenants, particularly in relation to the amount of equity, the ratio of net financial debt to EBITDA (see below for definition and calculation) and other key financial ratios or financial criteria of the Group or individual, sometimes amalgamated Group companies. This relates in particular to Lenzing AG, PT. South Pacific Viscose, Purwakarta, Indonesia, Pulp Trading GmbH, Lenzing, Austria, and Biocel Paskov a.s., Paskov, Czech Republic. If these financial covenants are breached, the banks can demand early repayment of the financial liabilities in some cases. Depending on the volume of the financial liabilities concerned and the refinancing options prevalent on the market at that time, this could lead to a refinancing risk and thus a liquidity risk for the Lenzing Group. In addition, future interest expenses could also increase because of higher credit risk spreads to be paid. For this reason, the financial covenants are monitored by the Treasury department on an ongoing basis and are taken into account when assessing distributions of the relevant Group companies, because they limit or can limit potential distributions significantly.

In the year under review, all related capital requirements were fulfilled.

The management uses an adjusted equity ratio internally for control purposes. Adjusted equity is calculated in accordance with IFRS. In addition to equity, it also includes investment grants less the associated deferred taxes. The adjusted equity ratio (= adjusted equity in relation to total assets) was 44.9% as at December 31, 2014 (December 31, 2013: 45.5%).

Adjusted equity is as follows:

### Adjusted equity

EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Equity | 1,045,634 | 1,089,462 |
| Government grants (+) | 26,559 | 26,025 |
| Proportionate deferred taxes on government grants (-) | (6,133) | (5,871) |
| **Total** | **1,066,061** | **1,109,616** |

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 with the aim of promoting the future development of the company, distributing dividends to the shareholders in line with the company's opportunity and risk situation, and also taking account appropriately of the interests of all other stakeholders crucial to the company's success. It is based on the Lenzing Group's net profit.

## Net financial debt

Together with the Supervisory Board, the Management Board of Lenzing AG regularly reviews the development of the capital structure and the performance indicators, key figures and influencing factors behind this development. In connection with this review, various risk profiles/sensitivities are taken into account and calculated for all investments in intangible assets and property, plant and equipment, as well as for specific projects and acquisitions. Depending on country risks and micro risks, differently weighted discount factors (WACCs) for the cash flows to be expected in the coming years are applied for the projects/investments. These procedures are subject to regular review, modification and coordination with the Management Board. Developments in the competition and market parameters/elasticity play an important role here.

Particular emphasis is placed on the development of net financial debt, as the two key figures of net financial debt and EBITDA have become extremely important key performance indicators in recent years, both in the Group's management and on the part of the financing banks. The continued optimal development of the Lenzing Group is only possible with very strong self-financing capacity as the basis for increased debt capacity.

The interest-bearing financial liabilities break down as follows:

### Interest bearing financial debt

EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Non-current financial liabilities | 537,033 | 609,605 |
| Current financial liabilities | 192,745 | 191,075 |
| **Total** | **729,778** | **800,680** |

# CONSOLIDATED FINANCIAL STATEMENTS 2014

Liquid assets consist of the following:

## Liquid assets — EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Cash and cash equivalents | 271,791 | 287,882 |
| Liquid bills of exchange (in trade receivables) | 8,470 | 8,147 |
| **Total** | **280,261** | **296,029** |

The financial instruments under liquid assets are payable on demand or have a term of less than one year.

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

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Interest bearing financial debt | 729,778 | 800,680 |
| Liquid assets (-) | (280,261) | (296,029) |
| **Total** | **449,517** | **504,651** |

## Net financial debt in relation to EBITDA — EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| **EBITDA (after restructuring and according to the consolidated income statement)** | **240,302** | **225,411** |
| Restructuring (see Note 6) | (2,030) | (6,056) |
| **EBITDA (before restructuring)** | **238,272** | **219,355** |
| **Net financial debt/EBITDA (after restructuring and according to the consolidated income statement)** | **1.87** | **2.24** |
| **Net financial debt/EBITDA (before restructuring)** | **1.89** | **2.30** |

## NOTE 39 Classes and categories of financial instruments

### Carrying amounts and measurement categories

The carrying amounts and measurement categories of financial assets (asset financial instruments) broke down by class as follows as at December 31, 2014 and December 31, 2013:

**Carrying amounts and measurement categories by classes of financial assets** EUR '000

| | Carrying amount | | Valuation pursuant to IAS 39 | | | |
|---|---|---|---|---|---|---|
| | 31/12/2014 | 31/12/2013 | At amortized cost | At cost | At fair value through profit or loss | At fair value directly in equity |
| Cash and cash equivalents (see Note 36) | 271,791 | 287,882 | ✔ | | | |
| Trade receivables (see Note 25) | 232,769 | 258,841 | ✔ | | | |
| Financial assets – loans (see Note 22) | 7,261 | 7,480 | ✔ | | | |
| Other non-current financial assets – non-current receivables (see Note 23) | 7,112 | 3,612 | ✔ | | | |
| Other current financial assets (not including derivatives – open positions) (see Note 27) | 20,925 | 13,052 | ✔ | | | |
| **Loans and receivables** | **539,858** | **570,866** | | | | |
| Financial assets – non-current securities (see Note 22) | 14,369 | 14,632 | | | | ✔ |
| Financial assets – other equity investments (see Note 22) | 1,564 | 1,064 | | ✔ | | |
| **Available-for-sale financial assets** | **15,933** | **15,696** | | | | |
| Other financial assets – derivative financial instruments at positive fair value (trading) (see Notes 23, 27) | 0 | 124 | | | ✔ | |
| **Financial assets at fair value through profit or loss** | **0** | **124** | | | | |
| Other financial assets – derivative financial instruments at positive fair value (cash flow hedges) (see Notes 23, 27) | 317 | 4,563 | | | | ✔ |
| Other financial assets – derivative financial instruments at positive fair value (cash flow hedges with the underlying already recognized in profit or loss) (see Notes 23, 27) | 207 | 1,612 | | | ✔ | |
| **Other** | **524** | **6,175** | | | | |
| **Total** | **556,315** | **592,861** | | | | |
| **Thereof:** | | | | | | |
| At amortized cost | 539,858 | 570,866 | | | | |
| At cost | 1,564 | 1,064 | | | | |
| At fair value through profit or loss | 207 | 1,735 | | | | |
| At fair value directly in equity | 14,686 | 19,196 | | | | |
| **Total** | **556,315** | **592,861** | | | | |

# CONSOLIDATED FINANCIAL STATEMENTS 2014

The carrying amounts and measurement categories of financial liabilities (liability financial instruments) broke down by class as follows as at December 31, 2014 and December 31, 2013:

## Carrying amounts and measurement categories by classes of financial liabilities EUR ’000

| | Carrying amount | | Valuation pursuant to IAS 39 | | | | |
|---|---|---|---|---|---|---|---|
| | 31/12/2014 | 31/12/2013 | At amortized cost | At cost | At fair value through profit or loss | At fair value directly in equity | Valuation pursuant to IAS 17 |
| Financial liabilities - bond (see Note 31) | 119,713 | 119,609 | ✔ | | | | |
| Financial liabilities - private placements (see Note 31) | 228,468 | 228,335 | ✔ | | | | |
| Financial liabilities - liabilities to banks (see Note 31) | 346,790 | 418,477 | ✔ | | | | |
| Financial liabilities - liabilities to other lenders (miscellaneous) (see Note 31) | 30,326 | 32,376 | ✔ | | | | |
| Trade payables | 181,130 | 176,592 | ✔ | | | | |
| Other non-current financial liabilities (see Note 35) | 807 | 4 | ✔ | | | | |
| Other current financial liabilities (not including derivatives - open positions and financial guarantee contracts) (see Notes 35, 46) | 34,609 | 5,888 | ✔ | | | | |
| Provisions - accruals - other (financial) (see Note 33) | 22,682 | 28,073 | ✔ | | | | |
| **Financial liabilities at amortized cost** | **964,524** | **1,009,354** | | | | | |
| Financial liabilities - lease liabilities (see Note 31) | 4,482 | 1,882 | | | | | ✔ |
| Other financial liabilities - derivative financial instruments at negative fair value (cash flow hedges) (see Note 35) | 26,522 | 3,061 | | | | ✔ | |
| Other financial liabilities - derivative financial instruments at negative fair value (cash flow hedges with the underlying already recognized in profit or loss) (see Note 35) | 7,485 | 695 | | | ✔ | | |
| Other current financial liabilities (financial guarantee contracts) (see Note 46) | 159 | 0 | | | | | |
| Puttable non-controlling interests (see Note 34) | 12,410 | 19,534 | | | | | |
| **Other** | **51,059** | **25,173** | | | | | |
| **Total** | **1,015,583** | **1,034,527** | | | | | |
| **Thereof:** | | | | | | | |
| At amortized cost | 964,524 | 1,009,354 | | | | | |
| At fair value through profit or loss | 7,485 | 695 | | | | | |
| At fair value directly in equity | 26,522 | 3,061 | | | | | |
| Valuation pursuant to IAS 17 | 4,482 | 1,882 | | | | | |
| Non-allocable | 12,569 | 19,534 | | | | | |
| **Total** | **1,015,583** | **1,034,526** | | | | | |

## Fair value hierarchy

The following breakdowns analyze the financial instruments according to the type of measurement method in the consolidated statement of financial position/in the notes. The item measured is the relevant individual financial instrument. Three levels of measurement methods have been defined:

**Level 1:** Prices for identical assets or liabilities on an active market (used without adjustment)

**Level 2:** Input factors that can be directly (e.g. as prices) or indirectly (e.g. derived from prices) observed for assets or liabilities and that do not fall under level 1

**Level 3:** Input factors for assets or liabilities that are not data observable on the market

The following table shows the carrying amounts and fair values of financial assets and liabilities whose fair value is measured on a recurring basis in the consolidated statement of financial position by class of financial instrument and by the level of the fair value hierarchy to which the fair value measurement is to be allocated, as at December 31, 2014 and December 31, 2013:

### Carrying amounts, fair values and fair value hierarchy of financial instruments (recurring measurement in statement of financial position) EUR '000

| | 31/12/2014 | | | 31/12/2013 | | |
|---|---|---|---|---|---|---|
| | Carrying amount | Fair value | Fair value hierarchy | Carrying amount | Fair value | Fair value hierarchy |
| **Financial assets** | | | | | | |
| Financial assets - non-current securities (see Note 22) | 14,369 | 14,369 | Level 1 | 14,632 | 14,632 | Level 1 |
| **Available-for-sale financial assets** | **14,369** | **14,369** | | **14,632** | **14,632** | |
| Other financial assets - derivative financial instruments at positive fair value (trading) (see Notes 23, 27) | 0 | 0 | | 124 | 124 | Level 2 |
| **Financial assets at fair value through profit or loss** | **0** | **0** | | **124** | **124** | |
| Other financial assets - derivative financial instruments at positive fair value (cash flow hedges) (see Notes 23, 27) | 317 | 317 | Level 2 | 4,563 | 4,563 | Level 2 |
| Other financial assets - derivative financial instruments at positive fair value (cash flow hedges with the underlying already recognized in profit or loss) (see Notes 23, 27) | 207 | 207 | Level 2 | 1,612 | 1,612 | Level 2 |
| **Other** | **524** | **524** | | **6,175** | **6,175** | |
| **Total** | **14,893** | **14,893** | | **20,931** | **20,931** | |
| **Financial liabilities** | | | | | | |
| Other financial liabilities - derivative financial instruments at negative fair value (cash flow hedges) (see Note 35) | 26,522 | 26,522 | Level 2 | 3,061 | 3,061 | Level 2 |
| Other financial liabilities - derivative financial instruments at negative fair value (cash flow hedges with the underlying already recognized in profit or loss) (see Note 35) | 7,485 | 7,485 | Level 2 | 695 | 695 | Level 2 |
| **Other** | **34,008** | **34,008** | | **3,756** | **3,756** | |
| **Total** | **34,008** | **34,008** | | **3,756** | **3,756** | |

# CONSOLIDATED FINANCIAL STATEMENTS 2014

The Lenzing Group accounts for transfers in the fair value hierarchy at the end of the reporting period in which they occur. There were no transfers between the different levels of the fair value hierarchy of financial instruments that were already held on December 31, 2014.

The following table shows the carrying amounts and fair values of financial assets and liabilities whose fair value is measured for disclosure in the notes only by class of financial instrument and by the level of the fair value hierarchy to which the fair value measurement is to be allocated, as at December 31, 2014 and December 31, 2013:

### Carrying amounts, fair values and fair value hierarchy of financial instruments (measurement for disclosures in the notes only)

EUR '000

| | 31/12/2014 | | | 31/12/2013 | | |
|---|---|---|---|---|---|---|
| | Carrying amount | Fair value | Fair value hierarchy | Carrying amount | Fair value | Fair value hierarchy |
| **Financial liabilities** | | | | | | |
| Financial liabilities - bond (see Note 31) | 119,713 | 126,780 | Level 1 | 119,609 | 126,029 | Level 1 |
| Financial liabilities - private placements (see Note 31) | 228,468 | 234,249 | Level 3 | 228,335 | 226,929 | Level 3 |
| Financial liabilities - liabilities to banks (see Note 31) | 346,790 | 347,496 | Level 3 | 418,477 | 420,216 | Level 3 |
| Financial liabilities - liabilities to other lenders (miscellaneous) (see Note 31) | 30,326 | 29,964 | Level 3 | 32,376 | 31,900 | Level 3 |
| Other current financial liabilities (financial guarantee contracts) (see Note 46) | 159 | 159 | Level 3 | 0 | 0 | Level 3 |
| **Total** | **725,456** | **738,648** | | **798,797** | **805,074** | |

For the following reasons, the management assumes that, with the exception of the fair values shown above, the carrying amount of the financial assets and financial liabilities represents a reasonable approximation of their fair value:

- The fair value of cash and cash equivalents, trade receivables and other current financial assets corresponds to the carrying amount, as the short remaining term means that no significant difference between the carrying amount and the fair value is to be expected and credit risk is taken into account by recognizing bad debt provisions.
- The carrying amount of loans and non-current financial receivables is roughly equivalent to the fair value, as due to the amount of existing receivables no significant difference between the fair value and the carrying amount is to be expected and credit risk is taken into account by recognizing bad debt provisions.
- Owing to their short-term nature, the fair values of the accruals, trade payables and other current financial liabilities correspond to their carrying amounts.
- In the case of other non-current financial liabilities, it is assumed that due to the low carrying amount there is no significant difference between the carrying amount and the fair value.

## Fair value measurement methods

In the Lenzing Group, the following financial instruments in particular are measured at fair value in the consolidated statement of financial position:

- Current and non-current securities (level 1 of the fair value hierarchy)
- Currency and commodity futures (level 2 of the fair value hierarchy)

The fair value measurement methods are described in Note 3 for securities (section on "Financial assets and securities") and currency and commodity futures (section on "Derivative financial instruments and hedges").

The majority of equity investments and related derivative financial instruments measured at cost (see Note 3, section on "Financial assets and securities") – EUR 1,050 thousand (December 31, 2013: EUR 1,050 thousand) – relates to the equity investment in LP Beteiligungs & Management GmbH, Linz, an option that requires the Lenzing Group to sell this equity investment and an option that entitles the Lenzing Group to sell this equity investment. LP Beteiligungs & Management GmbH, Linz, is a medium-sized Austrian corporation. A fair value cannot be reliably determined due to an insufficient planning base. The Lenzing Group does not currently intend to sell these equity investments. No holdings were derecognized and no gains or losses on remeasurement were recognized for these equity investments in the reporting period.

In the Lenzing Group, fair value is calculated only for disclosure in the notes for the following financial instruments in particular:

- Issued bond (level 1 of the fair value hierarchy)
- Other financial liabilities and financial guarantee contracts (level 3 of the fair value hierarchy)

The fair value of the issued bond is derived from its current quoted price and changes in particular according to changes in market interest rates and the credit rating of Lenzing AG.

The fair values of the other financial liabilities are determined using generally accepted valuation methods based on the discounted cash flow method. The main input factor here is the discount rate, which takes account of the available market data (risk-free interest rates) and the credit quality of the Lenzing Group that is not observable on the market. The fair values of the financial guarantee contracts equal the estimated expected default arising from the maximum possible payment obligation and the expected loss.

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

## Offsetting financial assets and liabilities

The Lenzing Group concludes framework netting agreements (in particular master netting arrangements) in the form of International Swaps and Derivatives Association (ISDA) and local master agreements. The amounts owed according to such agreements by each counterparty in the same currency on a single day with regard to all outstanding transactions are collated into a single net amount to be paid by one party to the other. In certain cases – for instance in the case of default – all outstanding transactions are terminated under the agreement, the value on termination is calculated, and only one net amount must be paid to settle all transactions. No netting is shown in the Lenzing Group's statement of financial position, because such master agreements do not usually result in net settlements of several transactions.

The following tables contain information on offsetting financial assets and liabilities in the consolidated statement of financial position on the basis of framework netting agreements. The "Effect of framework netting agreements" column shows the amounts that are the subject of an agreement of this type but do not fulfill the criteria for offsetting in the IFRS consolidated statement of financial position.

### Offsetting financial assets and liabilities

EUR '000

| Financial assets as at 31/12/2014 | Financial assets (gross) | Offset amounts recognized (gross) | Recognized financial assets (net) | Effect of framework netting agreements | Net amounts |
|---|---|---|---|---|---|
| Cash and cash equivalents | 271,827 | (36) | 271,791 | 0 | 271,791 |
| Other financial assets - derivative financial instruments at positive fair value | | | | | |
| Forward foreign exchange contracts | 524 | 0 | 524 | (524) | 0 |
| **Total** | **272,351** | **(36)** | **272,315** | **(524)** | **271,791** |

EUR '000

| Financial liabilities as at 31/12/2014 | Financial assets (gross) | Offset amounts recognized (gross) | Recognized financial liabilities (net) | Effect of framework netting agreements | Net amounts |
|---|---|---|---|---|---|
| Liabilities to banks | 346,826 | (36) | 346,790 | 0 | 346,790 |
| Other financial liabilities - derivative financial instruments at negative fair value | | | | | |
| Forward foreign exchange contracts | 32,431 | 0 | 32,431 | (524) | 31,907 |
| Gas swaps | 1,576 | 0 | 1,576 | 0 | 1,576 |
| **Total** | **380,834** | **(36)** | **380,798** | **(524)** | **380,274** |

## Offsetting financial assets and liabilities (previous year)

EUR '000

| Financial assets as at 31/12/2013 | Financial assets (gross) | Offset amounts recognized (gross) | Recognized financial assets (net) | Effect of framework netting agreements | Net amounts |
|---|---|---|---|---|---|
| Cash and cash equivalents | 288,705 | (823) | 287,882 | 0 | 287,882 |
| Other financial assets - derivative financial instruments at positive fair value | | | | | |
| Forward foreign exchange contracts | 6,151 | 0 | 6,151 | (2,506) | 2,645 |
| Gas swaps | 148 | 0 | 148 | (121) | 27 |
| **Total** | **295,004** | **(823)** | **294,181** | **(2,627)** | **291,553** |

EUR '000

| Financial liabilities as at 31/12/2013 | Financial liabilities (gross) | Offset amounts recognized (gross) | Recognized financial liabilities (net) | Effect of framework netting agreements | Net amounts |
|---|---|---|---|---|---|
| Liabilities to banks | 419,300 | (823) | 418,477 | 0 | 418,477 |
| Other financial liabilities - derivative financial instruments at negative fair value | | | | | |
| Forward foreign exchange contracts | 3,147 | 0 | 3,147 | (2,506) | 640 |
| Gas swaps | 610 | 0 | 610 | (121) | 489 |
| **Total** | **423,057** | **(823)** | **422,234** | **(2,627)** | **419,606** |

## Transfer of financial assets (sale of receivables/factoring)

Since the 2014 financial year, factoring agreements have been in place that oblige 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; each party has the right to cancel the agreements with notice and then allow them to expire. The receivables sold are current receivables due within a year.

The risks involved in the sold receivables that are relevant for risk assessment are credit default risk, currency risk in the case of receivables in foreign currencies and the risk of delayed payments. Credit-risk defaults and, in the case of receivables in foreign currencies, exchange rate fluctuations are the major opportunities and risks associated with these receivables. The risk of delayed payments is borne by the Lenzing Group for all factoring agreements and is considered minor.

In the case of an agreement for the sale of receivables in the reporting currency (hereafter referred to as "Tranche 1"), the bank bears the entire credit default risk. This means that all opportunities and risks were largely transferred to the bank.

In the case of the other agreements (hereafter referred to as "Tranche 2"), the Lenzing Group assumes liability of 10% for each payment default. This amount, which cannot be reimbursed by another party, is not advanced by the bank. The remaining credit default risk (90% per payment default) and – in the case of receivables not in the reporting currency – the currency risk are assumed by the bank. The significant opportunities and risks were thereby shared between the Lenzing Group and the bank; however, the authority to dispose of the receivables was transferred to the bank. The Lenzing Group committed itself to concluding credit insurance for the sold receivables and to taking on accounts receivable management. In the event of a legal dispute, the participating banks have the right to return overdue receivables to the Lenzing Group for procedural reasons. However, this does not return the credit default risk to the Lenzing Group, and there are no effects on the liquidity of the Lenzing Group.

As at December 31, 2014, the factoring agreements had a maximum usable nominal volume totaling EUR 86,936 thousand. EUR 2,600 thousand of this related to Tranche 1 and EUR 84,336 thousand to Tranche 2.

As at December 31, 2014, receivables totaling EUR 78,272 thousand were sold on the basis of the factoring agreements and derecognized in the Lenzing Group's consolidated statement of financial position. EUR 1,636 thousand of this related to Tranche 1 and EUR 76,636 thousand to Tranche 2. The amount of Tranche 2 that was not advanced is presented as other current assets (financial) at EUR 7,664 thousand (prior to foreign currency valuation) as at December 31, 2014. The fair values equal the indicated carrying amounts, in particular because the remaining terms of the relevant receivables are short. The Lenzing Group received the majority of the advances from the factoring agreements in March and May 2014 when the transactions began.

From the Lenzing Group's perspective, the above-mentioned amount of Tranche 2 that was not advanced corresponds to the theoretical maximum loss due to credit risk for the assumption of liability in the case of default. As at December 31, 2014, the fair value of this liability amounted to EUR 159 thousand (see also Note 46). As at December 31, 2014, other current liabilities (financial) were recognized at EUR 316 thousand for the assumed obligations and risks from the factoring agreements. In the 2014 financial year (and cumulatively since the start of the agreements), a total of EUR 316 thousand was therefore recognized in profit or loss. On the date of the transfer of the receivables in 2014, a total of EUR 315 thousand was recognized in profit or loss.

Payments that were received from customers in the period between the last advance made by the bank and December 31, are accrued in other current liabilities (financial)

The banks have the right to sell receivables back to the Lenzing Group at nominal value. Such repurchases would have no effect on the allocation of credit-risk defaults, as the default risk is not re-transferred. The cash outflows resulting from the repurchases would follow quickly, i.e. in 2015, if at all. Any utilization of the payment default guarantee would also follow quickly, i.e. in 2015. No utilization is expected for the receivables sold as at the reporting date.

NOTE 40

## Net interest and net result from financial instruments and net foreign currency profit/loss

### Net interest and net result

Net interest and net result from financial instruments by class/measurement category in accordance with IAS 39 breaks down as follows:

#### Net interest and net result from financial instruments EUR '000

| 2014 | From interest income | From interest expense | Net interest | From subsequent measurement at fair value through profit or loss | From subsequent measurement at fair value directly in equity | From impairment | From result on disposal | Net result (total) |
|---|---|---|---|---|---|---|---|---|
| Loans and receivables | 1,691 | 0 | 1,691 | 0 | 0 | (4,699)[1] | 0 | (3,008) |
| Available-for-sale financial assets | 233 | 0 | 233 | 0 | 790 | 0 | (43) | 980 |
| Financial instruments measured at fair value through profit or loss | 0 | 0 | 0 | (124) | 0 | 0 | 0 | (124) |
| Financial liabilities measured at amortized cost | 0 | (25,861) | (25,861) | 0 | 0 | 0 | 0 | (25,861) |
| **Total** | **1,924** | **(25,861)** | **(23,937)** | **(124)** | **790** | **(4,699)** | **(43)** | **(28,012)** |

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

| 2013 | From interest income | From interest expense | Net interest | From subsequent measurement at fair value through profit or loss | From subsequent measurement at fair value directly in equity | From impairment | From result on disposal | Net result (total) |
|---|---|---|---|---|---|---|---|---|
| Loans and receivables | 2,402 | 0 | 2,402 | 0 | 0 | (2,355)[1] | 0 | 47 |
| Available-for-sale financial assets | 277 | 0 | 277 | 0 | (202) | 0 | 33 | 108 |
| Financial instruments measured at fair value through profit or loss | 0 | 0 | 0 | 330 | 0 | 0 | 0 | 330 |
| Financial liabilities measured at amortized cost | 0 | (26,099) | (26,099) | 0 | 0 | 0 | 0 | (26,099) |
| **Total** | **2,679** | **(26,099)** | **(23,420)** | **330** | **(202)** | **(2,355)** | **33** | **(25,613)** |

[1)] Incl. valuation of non-current financial assets

Net result from financial instruments comprises net interest (current interest income and expenses including amortization of premiums and discounts and dividends of companies that are not accounted for using the equity method), gains/losses on remeasurement from fair value measurement in profit or loss and in equity, and the result from impairments (recognition and reversal of bad debt provisions/valuation adjustments) and disposals. Income from available-for-sale financial assets includes gains/losses from remeasurement and from the reclassification of the 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 at fair value through profit or loss) or gains/losses from hedging instruments (cash flow hedges).

The change in bad debt provisions for "Receivables measured at amortized cost" is reported in "Other operating expenses". The portion recognized directly in equity from the subsequent measurement of available-for-sale financial assets at fair value is reported in the "Reserve for available-for-sale financial assets". The remaining components of net result are included in "Income from non-current and current financial assets" and in "Financing costs".

In the current financial year, expenses totaling EUR 2,306 thousand (2013: EUR 1,605 thousand) were recognized for the provision of loans.

### Net foreign currency result

Net foreign currency gains/losses are included in other operating income/expenses in the amount of EUR +4,676 thousand (2013: EUR -8,755 thousand), in income from non-current and current financial assets in the amount of EUR +4,077 thousand (2013: EUR -2,012 thousand) and in financing costs in the amount of EUR -1,556 thousand (2013: EUR -5,170 thousand).

## NOTE 41 Management of financial risks and derivative financial instruments

### Fundamentals

As an international company, the Group is exposed to financial risks and other market risks. Potential risks are identified and assessed at an early stage using a company-wide risk management system that is regulated comprehensively in guidelines. This aims to achieve maximum risk transparency and quality of information by quantifying all risk categories, with particular regard to 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.

Financial risks from financial instruments – credit risk, liquidity risk, currency risk (particularly USD and CNY), commodity price risk and interest rate risk – are classified as relevant risks for the Lenzing Group. Corresponding hedging measures are used to attempt to minimize these risks. Shares acquired in external companies are classified as long-term investments and therefore are not seen as a relevant market price risk in the short to medium term.

## Credit risk

Credit risk refers to the risk of losses of assets that may occur as a result of individual business partners failing to meet their contractual obligations. In the case of delivery transactions (particularly trade receivables), the credit risk inherent in the underlying transaction is secured against to a large extent by notable credit insurance and bankable security (guarantees, letters of credit, bills of exchange etc.). Accounts receivable and customer limits are monitored on an ongoing basis. The credit risk at banks from investments (particularly cash and cash equivalents) and derivatives with positive fair values is reduced by concluding transactions only with counterparties with a good credit rating.

Receivables are measured individually. Individual bad debt provisions are recognized for receivables if they are not expected to be fully collectible. This applies in particular if there are significant financial difficulties of the debtor, default or delay in making payments or an increased probability that the debtor will become bankrupt and the receivable concerned is not sufficiently collateralized. The historical default rates for receivables are low due to the Lenzing Group's comprehensive accounts receivable management (extensive collateralization with credit insurance and bankable security and ongoing monitoring of accounts receivable and customer limits). Group (collective) bad debt provisions therefore are not recognized.

The Group tends to rate the risk concentration with regard to trade receivables as low, as its customers are based in various countries, belong to various sectors and are active on largely independent markets. In addition, a rather small amount of the receivables is overdue and not impaired (see table under "Ageing of receivables").

# CONSOLIDATED FINANCIAL STATEMENTS 2014

The bad debt provisions developed as follows:

## Development of bad debt provisions EUR '000

| | Loans (non-current and current) | Trade receivables | Other financial receivables (non-current and current) |
|---|---|---|---|
| **Bad debt provisions as at 01/01/2013** | **2,275** | **7,857** | **1,174** |
| Changes in scope of consolidation | (11) | (97) | 0 |
| Utilization | 0 | (197) | 0 |
| Reversal | (4) | (536) | 0 |
| Addition | 0 | 488 | 2,406[1] |
| Currency translation adjustment | 11 | 37 | 0 |
| **Bad debt provisions as at 31/12/2013 = 01/01/2014** | **2,271** | **7,554** | **3,580** |
| Changes in scope of consolidation | 0 | 0 | 0 |
| Utilization | 0 | (557) | (930) |
| Reversal | (6) | (124) | 0 |
| Addition | 10 | 3,389 | 1,430[1] |
| Currency translation adjustment | (22) | 238 | 0 |
| **Bad debt provisions as at 31/12/2014** | **2,253** | **10,501** | **4,080** |

Bad debt provisions for trade receivables include bad debt provisions relating to companies accounted for using the equity method in the amount of EUR 2,134 thousand (2013: EUR 2,110 thousand).

Bad debt provisions for trade receivables mainly relate to bad debt provisions for past due, uninsured receivables.

The carrying amount of the impaired receivables is as follows:

## Carrying amount of impaired receivables as at December 31, 2014 EUR '000

| | Loans (non-current and current) | Trade receivables | Other financial receivables (non-current and current) |
|---|---|---|---|
| Before bad debt provision | 2,416 | 20,369 | 5,765 |
| After bad debt provision | 163 | 9,868 | 1,686 |

[1] Incl. valuation of non-current financial assets

## Carrying amount of impaired receivables as at December 31, 2013 (previous year)

EUR '000

| | Loans (non-current and current) | Trade receivables | Other financial receivables (non-current and current) |
|---|---|---|---|
| Before bad debt provision | 2,415 | 10,947 | 6,695 |
| After bad debt provision | 144 | 3,392 | 3,115 |

The ageing of the financial receivables breaks down as follows:

## Ageing of receivables

EUR '000

| | Loans (non-current and current) | Trade receivables | Other financial receivables (non-current and current) |
|---|---|---|---|
| Carrying amount as at 31/12/2014 | 7,261 | 232,769 | 28,560 |
| Thereof not impaired at the reporting date and: | | | |
| Not overdue | 7,098 | 205,089 | 26,874 |
| Overdue up to 30 days | 0 | 13,939 | 0 |
| Overdue for 31 to 90 days | 0 | 1,761 | 0 |
| Overdue for 91 to 365 days | 0 | 2,099 | 0 |
| Overdue for more than one year | 0 | 12 | 0 |
| Thereof impaired | 163 | 9,868 | 1,686 |

## Ageing of receivables (previous year)

EUR '000

| | Loans (non-current and current) | Trade receivables | Other financial receivables (non-current and current) |
|---|---|---|---|
| Carrying amount as at 31/12/2013 | 7,480 | 258,841 | 22,963 |
| Thereof not impaired at the reporting date and: | | | |
| Not overdue | 7,336 | 235,848 | 19,848 |
| Overdue up to 30 days | 0 | 18,451 | 0 |
| Overdue for 31 to 90 days | 0 | 1,122 | 0 |
| Overdue for 91 to 365 days | 0 | 0 | 0 |
| Overdue for more than one year | 0 | 28 | 0 |
| Thereof impaired | 144 | 3,392 | 3,115 |

# CONSOLIDATED FINANCIAL STATEMENTS 2014

The maximum exposure to credit risk from financial assets recognized is as follows:

## Maximum exposure to credit risk from financial assets recognized

EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Carrying amount of asset financial instruments (see Note 39) | 556,315 | 592,861 |
| Less risk reduction in relation to receivables due to | | |
| Credit insurance received (not including deductibles) | (133,629) | (117,314) |
| Guarantees received | (3,436) | (3,356) |
| **Total** | **419,250** | **472,192** |

The maximum exposure to credit risk from financial guarantee contracts and contingent liabilities is shown in Note 46.

From a current point of view, there are no doubts regarding the collectability of financial assets that are neither past due nor impaired.

There are no significant concentrations of risk from the investment of financial assets with only one business partner.

## Liquidity risk

Liquidity risk refers to the risk of not being able to obtain funds at all times to settle the liabilities incurred. Management of liquidity risk is given high priority in the Lenzing Group. The company guidelines stipulate uniform, forward-looking liquidity planning and medium-term planning throughout the Group. The risk of a possible liquidity shortage is monitored continuously in the Lenzing Group.

The Lenzing Group has liquid assets totaling EUR 280,261 thousand (December 31, 2013: EUR 296,029 thousand) in the form of cash and cash equivalents, liquid securities and liquid bills of exchange (see Note 38). To finance necessary operating resources and to cover any deficits caused by economic cycles, there were free credit facilities committed in writing in the amount of EUR 198,509 thousand as at December 31, 2014 (December 31, 2013: EUR 296,169 thousand). In the medium and long term, the Lenzing Group is financed with equity and financial liabilities, particularly bonds, private placements and bank loans. Current financial liabilities can regularly be extended or refinanced with other lenders. For this reason, the Group tends to rate the risk concentration with regard to sufficient sources of financing as low.

The contractually agreed (undiscounted) interest and principal payments for primary financial liabilities (including financial guarantee contracts) break down as follows:

### Maturity analysis of non-derivative financial liabilities

| | Measurement category pursuant to IAS 39 | 31/12/2014 |
|---|---|---|
| | | Carrying amount |
| Bond | Financial liabilities at amortized cost (FLAC) | 119,713 |
| Private placements | Financial liabilities at amortized cost (FLAC) | 228,468 |
| Liabilities to banks | Financial liabilities at amortized cost (FLAC) | 346,790 |
| Liabilities to other lenders | Financial liabilities at amortized cost (FLAC) | 30,326 |
| Trade payables | Financial liabilities at amortized cost (FLAC) | 181,130 |
| Puttable non-controlling interests | Financial liabilities at amortized cost (FLAC) | 12,410 |
| Other liabilities - other financial liabilities (not including financial guarantee contracts) | Financial liabilities at amortized cost (FLAC) | 35,415 |
| Other current financial liabilities (financial guarantee contracts)[1] | n/a (other) | 159 |
| Accruals - other (financial) | Financial liabilities at amortized cost (FLAC) | 22,682 |
| Finance lease liabilities | n/a (IAS 17) | 4,482 |
| **Total** | | **981,575** |

### Maturity analysis of non-derivative financial liabilities (previous year)

| | Measurement category pursuant to IAS 39 | 31/12/2013 |
|---|---|---|
| | | Carrying amount |
| Bond | Financial liabilities at amortized cost (FLAC) | 119,609 |
| Private placements | Financial liabilities at amortized cost (FLAC) | 228,335 |
| Liabilities to banks | Financial liabilities at amortized cost (FLAC) | 418,477 |
| Liabilities to other lenders | Financial liabilities at amortized cost (FLAC) | 32,376 |
| Trade payables | Financial liabilities at amortized cost (FLAC) | 176,592 |
| Puttable non-controlling interests | Financial liabilities at amortized cost (FLAC) | 19,534 |
| Other liabilities - other financial liabilities (not including financial guarantee contracts) | Financial liabilities at amortized cost (FLAC) | 5,892 |
| Other current financial liabilities (financial guarantee contracts) | n/a (other) | 0 |
| Accruals - other (financial) | Financial liabilities at amortized cost (FLAC) | 28,073 |
| Finance lease liabilities | n/a (IAS 17) | 1,882 |
| **Total** | | **1,030,771** |

The tables above include all primary financial liabilities held on the reporting date. They do not include planned figures for future liabilities. Amounts in foreign currency were translated at the spot exchange rate as at the reporting date. Floating-rate interest payments were calculated based on 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.

[1] The maximum possible payment obligations from financial guarantee contracts granted are shown. The amounts are assumed to be due in the first year.

EUR '000

| Cash flows 2015 | | | | Cash flows 2016 to 2019 | | | | Cash flows from 2020 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Fixed interest | Fixed and floating-rate interest | Floating-rate interest | Repayment | Fixed interest | Fixed and floating-rate interest | Floating-rate interest | Repayment | Fixed interest | Fixed and floating-rate interest | Floating-rate interest | Repayment |
| 4,650 | 0 | 0 | 0 | 9,300 | 0 | 0 | 120,000 | 0 | 0 | 0 | 0 |
| 4,184 | 0 | 1,630 | 0 | 13,241 | 0 | 3,213 | 193,000 | 4,324 | 0 | 0 | 36,000 |
| 699 | 0 | 7,722 | 185,117 | 27 | 0 | 5,831 | 161,673 | 0 | 0 | 0 | 0 |
| 71 | 171 | 81 | 7,184 | 64 | 302 | 81 | 22,107 | 1 | 4 | 0 | 1,035 |
| 0 | 0 | 0 | 181,130 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 12,410 |
| 0 | 0 | 0 | 34,609 | 0 | 0 | 0 | 807 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 159 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 22,682 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 23 | 0 | 0 | 389 | 60 | 0 | 0 | 2,115 | 4,623 | 0 | 0 | 1,978 |
| **9,628** | **171** | **9,432** | **431,269** | **22,692** | **302** | **9,125** | **499,702** | **8,948** | **4** | **0** | **51,423** |

EUR '000

| Cash flows 2014 | | | | Cash flows 2015 to 2018 | | | | Cash flows from 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Fixed interest | Fixed and floating-rate interest | Floating-rate interest | Repayment | Fixed interest | Fixed and floating-rate interest | Floating-rate interest | Repayment | Fixed interest | Fixed and floating-rate interest | Floating-rate interest | Repayment |
| 4,650 | 0 | 0 | 0 | 13,950 | 0 | 0 | 120,000 | 0 | 0 | 0 | 0 |
| 4,166 | 0 | 1,810 | 0 | 14,911 | 0 | 5,898 | 132,000 | 6,840 | 0 | 1,155 | 97,000 |
| 1,709 | 0 | 8,900 | 181,841 | 566 | 0 | 10,404 | 236,636 | 0 | 0 | 0 | 0 |
| 67 | 281 | 69 | 9,213 | 99 | 328 | 69 | 22,413 | 0 | 3 | 0 | 750 |
| 0 | 0 | 0 | 176,592 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 19,534 |
| 0 | 0 | 0 | 5,888 | 0 | 0 | 0 | 4 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 28,073 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1 | 0 | 0 | 19 | 10 | 0 | 0 | 69 | 4,699 | 0 | 0 | 1,794 |
| **10,592** | **281** | **10,780** | **401,627** | **29,536** | **328** | **16,371** | **511,122** | **11,539** | **3** | **1,155** | **119,079** |

# CONSOLIDATED FINANCIAL STATEMENTS 2014

The contractually agreed (undiscounted) interest and principal payments for derivative financial instruments break down as follows:

## Maturity analysis of derivative financial instruments

| | Measurement category pursuant to IAS 39 | 31/12/2014 |
|---|---|---|
| | | Carrying amount |
| **Currency derivatives** | | |
| Cash flow hedges | n/a | 317 |
| Cash flow hedges with the underlying already recognized in profit or loss | n/a | 207 |
| Trading | At fair value through profit or loss (trading) | 0 |
| **Positive fair value** | | **524** |
| Cash flow hedges | n/a | (24,946) |
| Cash flow hedges with the underlying already recognized in profit or loss | n/a | (7,485) |
| Trading | At fair value through profit or loss (trading) | 0 |
| **Negative fair value** | | **(32,431)** |
| **Total currency derivatives** | | **(31,907)** |
| **Gas derivatives** | | |
| Cash flow hedges | n/a | 0 |
| Cash flow hedges with the underlying already recognized in profit or loss | n/a | 0 |
| Trading | At fair value through profit or loss (trading) | 0 |
| **Positive fair value** | | **0** |
| Cash flow hedges | n/a | (1,576) |
| Cash flow hedges with the underlying already recognized in profit or loss | n/a | 0 |
| Trading | At fair value through profit or loss (trading) | 0 |
| **Negative fair value** | | **(1,576)** |
| **Total gas derivatives** | | **(1,576)** |
| **Total** | | **(33,484)** |

Fair value: + = receivable, - = liability from the Lenzing Group’s perspective

EUR '000

| Cash flows 2015 | | | | Cash flows 2016 to 2019 | | | | Cash flows from 2020 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Fixed interest | Fixed and floating-rate interest | Floating-rate interest | Repay-ment | Fixed interest | Fixed and floating-rate interest | Floating-rate interest | Repay-ment | Fixed interest | Fixed and floating-rate interest | Floating-rate interest | Repay-ment |
| | | | | | | | | | | | |
| 0 | 0 | 0 | 246 | 0 | 0 | 0 | 71 | | | | |
| | | | 207 | | | | 0 | | | | |
| | | | 0 | | | | 0 | | | | |
| **0** | **0** | **0** | **453** | **0** | **0** | **0** | **71** | **0** | **0** | **0** | **0** |
| | | | (21,103) | | | | (3,843) | | | | |
| | | | (7,485) | | | | 0 | | | | |
| | | | 0 | | | | 0 | | | | |
| **0** | **0** | **0** | **(28,588)** | **0** | **0** | **0** | **(3,843)** | **0** | **0** | **0** | **0** |
| **0** | **0** | **0** | **(28,135)** | **0** | **0** | **0** | **(3,772)** | **0** | **0** | **0** | **0** |
| | | | | | | | | | | | |
| | | | 0 | | | | 0 | | | | |
| | | | 0 | | | | 0 | | | | |
| | | | 0 | | | | 0 | | | | |
| **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| | | | | | | | | | | | |
| | | | (926) | | | | (651) | | | | |
| | | | 0 | | | | 0 | | | | |
| | | | 0 | | | | 0 | | | | |
| **0** | **0** | **0** | **(926)** | **0** | **0** | **0** | **(651)** | **0** | **0** | **0** | **0** |
| **0** | **0** | **0** | **(926)** | **0** | **0** | **0** | **(651)** | **0** | **0** | **0** | **0** |
| **0** | **0** | **0** | **(29,061)** | **0** | **0** | **0** | **(4,423)** | **0** | **0** | **0** | **0** |

## Maturity analysis of derivative financial instruments (previous year)

| | Measurement category pursuant to IAS 39 | 31/12/2013 Carrying amount |
|---|---|---|
| **Currency derivatives** | | |
| Cash flow hedges | n/a | 4,416 |
| Cash flow hedges with the underlying already recognized in profit or loss | n/a | 1,612 |
| Trading | At fair value through profit or loss (trading) | 124 |
| **Positive fair value** | | **6,151** |
| Cash flow hedges | n/a | (2,451) |
| Cash flow hedges with the underlying already recognized in profit or loss | n/a | (695) |
| Trading | At fair value through profit or loss (trading) | 0 |
| **Negative fair value** | | **(3,147)** |
| **Total currency derivatives** | | **3,004** |
| **Gas derivatives** | | |
| Cash flow hedges | n/a | 148 |
| Cash flow hedges with the underlying already recognized in profit or loss | n/a | 0 |
| Trading | At fair value through profit or loss (trading) | 0 |
| **Positive fair value** | | **148** |
| Cash flow hedges | n/a | (610) |
| Cash flow hedges with the underlying already recognized in profit or loss | n/a | 0 |
| Trading | At fair value through profit or loss (trading) | 0 |
| **Negative fair value** | | **(610)** |
| **Total gas derivatives** | | **(462)** |
| **Total** | | **2,542** |

Fair value: + = receivable, - = liability from the Lenzing Group’s perspective

EUR '000

| Cash flows 2014 | | | | Cash flows 2015 to 2018 | | | | Cash flows from 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Fixed interest | Fixed and floating-rate interest | Floating-rate interest | Repay-ment | Fixed interest | Fixed and floating-rate interest | Floating-rate interest | Repay-ment | Fixed interest | Fixed and floating-rate interest | Floating-rate interest | Repay-ment |
| 0 | 0 | 0 | 4,250 | 0 | 0 | 0 | 166 | | | | |
| | | | 1,612 | | | | 0 | | | | |
| | | | 124 | | | | 0 | | | | |
| **0** | **0** | **0** | **5,986** | **0** | **0** | **0** | **166** | **0** | **0** | **0** | **0** |
| | | | (2,228) | | | | (224) | | | | |
| | | | (695) | | | | 0 | | | | |
| | | | 0 | | | | 0 | | | | |
| **0** | **0** | **0** | **(2,923)** | **0** | **0** | **0** | **(224)** | **0** | **0** | **0** | **0** |
| **0** | **0** | **0** | **3,062** | **0** | **0** | **0** | **(58)** | **0** | **0** | **0** | **0** |
| | | | 83 | | | | 65 | | | | |
| | | | 0 | | | | 0 | | | | |
| | | | 0 | | | | 0 | | | | |
| **0** | **0** | **0** | **83** | **0** | **0** | **0** | **65** | **0** | **0** | **0** | **0** |
| | | | (188) | | | | (422) | | | | |
| | | | 0 | | | | 0 | | | | |
| | | | 0 | | | | 0 | | | | |
| **0** | **0** | **0** | **(188)** | **0** | **0** | **0** | **(422)** | **0** | **0** | **0** | **0** |
| **0** | **0** | **0** | **(105)** | **0** | **0** | **0** | **(357)** | **0** | **0** | **0** | **0** |
| 0 | 0 | 0 | 2,957 | 0 | 0 | 0 | (414) | 0 | 0 | 0 | 0 |

## Currency risk

The companies of the Lenzing Group are exposed to currency risks as a result of cash flows from capital expenditures and from operating business as well as from investments and financing in foreign currencies. Risks from foreign currencies are hedged as far as possible if they influence the Group's cash flows. In operating business, the individual Group companies are exposed to currency risk in connection with planned incoming and outgoing payments in currencies other than their functional currency. The exchange rate risk arising from foreign-currency items from anticipated future transactions by Group companies in foreign currencies is hedged with forward foreign exchange contracts, which are recognized at fair value.

For companies with the same functional currency, the respective net exposures in foreign currency are calculated for the following sales year as part of budgeting. Purchases in a particular foreign currency and sales in a particular foreign currency are each aggregated into groups. As at December 31, 2014, approximately 59% (December 31, 2013: approximately 61%) of the budgeted net exposure for the following financial year for the dominant currency pair in the Lenzing Group, EUR/USD, was hedged. In addition the CNY plays an important role. The level of the resulting risk concentration as at the reporting date can be seen in the tables below (especially the "Sensitivity analysis and risk exposure for foreign currency risks" tables).

At Group level, translation risk is also regularly assessed and monitored. Translation risk refers to the risk that arises as a result of the consolidation of foreign investments whose functional currency is not the euro. The greatest risk exposure here is in relation to the USD.

## Instruments for hedging against currency risk

Cash flow hedges are allocated to sales from operating business in the subsequent financial years in the respective hedged currency. The resulting cash flows are planned on a monthly basis. The sum of incoming and outgoing payments for each month is balanced as at the end of the respective month. Cash flow hedges with the underlying already recognized in profit or loss are used to hedge foreign-currency receivables/liabilities that are already recognized as at the reporting date but do not impact cash until after the reporting date. In some cases, Group companies use derivatives for hedging against currency risks to which no hedged items are allocated in accounting terms (trading derivatives), but which are used to hedge against currency risks in economic terms. For this reason, hedge accounting is not used for these derivatives.

The ineffective portion of the cash flow hedges amounted to EUR 43 thousand in the financial year (2013: EUR 41 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

| | 31/12/2014 | | | | | | 31/12/2013 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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/CNH-buy / EUR-sale | CNY/CNH | 0 | 0 | 0 | 0 | n/a | CNY/CNH | 525 | 0 | (1) | (1) | 01/2014 |
| CNY/CNH-sale / EUR-buy | CNY/CNH | 1,231,000 | 0 | (6,293) | (6,293) | 06/2016 | CNY/CNH | 456,000 | 74 | (161) | (86) | 06/2015 |
| CNY/CNH-sale / GBP-buy | CNY/CNH | 123,200 | 0 | (445) | (445) | 06/2016 | CNY/CNH | 0 | 0 | 0 | 0 | n/a |
| CZK-buy / EUR-sale | CZK | 202,000 | 0 | (91) | (91) | 01/2016 | CZK | 225,000 | 0 | (489) | (489) | 01/2015 |
| EUR-buy / CZK-sale | EUR | 0 | 0 | 0 | 0 | n/a | EUR | 1,598 | 1 | 0 | 1 | 12/2014 |
| JPY-sale / EUR-buy | JPY | 0 | 0 | 0 | 0 | n/a | JPY | 31,500 | 17 | 0 | 17 | 02/2015 |
| JPY-sale / GBP-buy | JPY | 261,000 | 106 | 0 | 106 | 01/2016 | JPY | 84,152 | 69 | 0 | 69 | 02/2015 |
| USD-buy / EUR-sale | USD | 5,000 | 210 | 0 | 210 | 02/2016 | USD | 0 | 0 | 0 | 0 | n/a |
| USD-sale / CZK-buy | USD | 81,600 | 0 | (5,451) | (5,451) | 01/2016 | USD | 81,300 | 33 | (1,785) | (1,752) | 01/2015 |
| USD-sale / EUR-buy | USD | 213,600 | 0 | (12,088) | (12,088) | 01/2016 | USD | 197,700 | 3,711 | (16) | 3,695 | 02/2015 |
| USD-sale / GBP-buy | USD | 9,700 | 0 | (577) | (577) | 08/2015 | USD | 25,069 | 510 | 0 | 510 | 02/2015 |
| **Total** | | | **317** | **(24,946)** | **(24,629)** | | | | **4,416** | **(2,451)** | **1,964** | |

Fair value: + = receivable, - = liability from the Lenzing Group's perspective
The hedging period stated is equivalent to the period of the expected cash flows and their recognition in profit or loss.

## Cash flow hedges for currency risks with the underlying already recognized in profit or loss

The nominal values and fair values of cash flow hedges with the underlying already recognized in profit or loss are as follows as at the reporting dates:

### Nominal value and fair value of cash flow hedge derivatives for currency riskswith the underlying already recognized in profit or loss EUR '000

| | 31/12/2014 | | | | | 31/12/2013 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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** | | | | | | | | | | |
| JPY-sales / EUR-buy | JPY | 3,500 | 2 | 0 | 2 | JPY | 0 | 0 | 0 | 0 |
| USD buy / EUR sale | USD | 2,143 | 171 | 0 | 171 | USD | 0 | 0 | 0 | 0 |
| CNY/CNH-sale / EUR-buy | CNY/CNH | 420,050 | 0 | (4,520) | (4,520) | CNY/CNH | 465,250 | 381 | (496) | (114) |
| JPY-sale / GBP-buy | JPY | 49,500 | 34 | 0 | 34 | JPY | 58,348 | 64 | 0 | 64 |
| USD-sale / CZK-buy | USD | 6,900 | 0 | (801) | (801) | USD | 6,300 | 0 | (200) | (200) |
| USD-sale / EUR-buy | USD | 22,818 | 0 | (1,938) | (1,938) | USD | 28,100 | 606 | 0 | 606 |
| USD-sale / GBP-buy | USD | 5,500 | 0 | (227) | (227) | USD | 18,531 | 561 | 0 | 561 |
| **Total** | | | **207** | **(7,485)** | **(7,278)** | | | **1,612** | **(695)** | **916** |

Fair value: + = receivable, - = liability from the Lenzing Group's perspective

## Trading derivatives for currency risks

The nominal values and fair values of the trading derivatives are as follows as at the reporting dates:

### Nominal value and fair value of trading derivatives for currency risks EUR '000

| | 31/12/2014 | | | | | 31/12/2013 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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** | | | | | | | | | | |
| EUR-buy / USD-sale | EUR | 0 | 0 | 0 | 0 | EUR | 27,600 | 124 | 0 | 124 |
| **Total** | | | **0** | **0** | **0** | | | **124** | **0** | **124** |

Fair value: + = receivable, - = liability from the Lenzing Group's perspective

## Sensitivity analysis and exposure for currency risks

Sensitivity analyses are performed for currency risks. They show the effects of hypothetical changes in exchange rates on profit or loss/other comprehensive income/equity.

The Lenzing Group uses the following assumptions in its analysis:

- As a basis for the sensitivity of profit or loss, the Group uses receivables and liabilities of Group companies that are denominated in a currency other than the functional currency of the relevant company, open derivatives from cash flow hedges for currency risks with the underlying already recognized in profit or loss, and trading derivatives for currency risks as at the reporting date. The carrying amounts of the receivables and liabilities and the nominal values of the derivatives correspond to the exposure. For the aggregation to Group exposure, the individual exposures are presented consistently in relation to the currencies USD/EUR.

- Open derivatives from cash flow hedges for currency risks with the underlying not yet recognized in profit or loss are used as the basis for the sensitivity of other comprehensive income as at the reporting date. The nominal value of the open derivatives corresponds to the exposure.

The sensitivities and exposure for currency risk are as follows as at the reporting dates:

### Sensitivity analysis and risk exposure for foreign currency risks (EUR)

EUR '000

| | 31/12/2014 | | | 31/12/2013 | | |
|---|---|---|---|---|---|---|
| | Group exposure in relation to EUR | Sensitivity in the event of 10% devaluation of the EUR | Sensitivity in the event of 10% revaluation of the EUR | Group exposure in relation to EUR | Sensitivity in the event of 10% devaluation of the EUR | Sensitivity in the event of 10% revaluation of the EUR |
| EUR-USD | 74,379 | 8,264 | (6,762) | 52,419 | 5,824 | (4,765) |
| EUR-GBP | (2,674) | (297) | 243 | (3,268) | (363) | 297 |
| EUR-CNY/CNH | 50,407 | 5,601 | (4,582) | 33,067 | 3,674 | (3,006) |
| EUR-CZK | 90,955 | 10,106 | (8,269) | 105,249 | 11,694 | (9,568) |
| Sensitivity of profit or loss (due to receivables and liabilities) | | 23,674 | (19,370) | | 20,830 | (17,042) |
| Sensitivity of other comprehensive income (due to cash flow hedge derivatives) | | (35,857) | 31,473 | | (20,670) | 17,730 |
| **Sensitivity of equity** | | **(12,183)** | **12,103** | | **160** | **688** |

Group exposure: + receivable, - liability; sensitivity: + increase in profit/in other comprehensive income, - decrease in profit/in other comprehensive income

### Sensitivity analysis and risk exposure for foreign currency risks (USD)

EUR '000

| | 31/12/2014 | | | 31/12/2013 | | |
|---|---|---|---|---|---|---|
| | Group exposure in relation to USD | Sensitivity in the event of 10% devaluation of the USD | Sensitivity in the event of 10% revaluation of the USD | Group exposure in relation to USD | Sensitivity in the event of 10% devaluation of the USD | Sensitivity in the event of 10% revaluation of the USD |
| USD-IDR | 3,328 | 370 | (303) | 1,920 | 213 | (175) |
| USD-GBP | (6,019) | (669) | 547 | 7 | 1 | (1) |
| USD-HKD | 47 | 5 | (4) | (34) | (4) | 3 |
| USD-CNY/CNH | 30,933 | 3,437 | (2,812) | 35,836 | 3,982 | (3,258) |
| USD-CZK | (2,463) | (274) | 224 | (4,436) | (493) | 403 |
| Sensitivity of profit or loss (due to receivables and liabilities) | | 2,870 | (2,348) | | 3,699 | (3,027) |
| Sensitivity of other comprehensive income (due to cash flow hedge derivatives) | | 12,495 | (15,271) | | 12,852 | (12,351) |
| **Sensitivity of equity** | | **15,364** | **(17,619)** | | **16,551** | **(15,378)** |

Group exposure: + receivable, - liability; sensitivity: + increase in profit/in other comprehensive income, - decrease in profit/in other comprehensive income

## Commodity price risk

As part of the optimization of energy costs, gas purchasing in the Lenzing Group was largely centralized. The Group uses OTC gas swaps as cash flow hedges to manage gas price risks. The hedging strategies are determined based on the planned gas consumption figures in the relevant currency and are compared with the current market prices on a monthly basis ("market to market" assessment). The Lenzing Group is exposed to accounting-related price risks as a result of the gas swaps. These risks particularly relate to the possibility that fair value measurement of the gas swaps may result in a negative impact on other comprehensive income/equity in the event of an adverse change in market prices.

Other than this, the Group is subject to the usual market price risks in connection with its business activities (particularly for wood, pulp and energy), which are not hedged with derivatives or financial instruments, but instead with other safeguarding measures (particularly long-term and short-term supply contracts with various suppliers).

## Instruments for hedging against commodity price risks – cash flow hedges

The nominal values and fair values of the cash flow hedges are as follows as at the reporting dates:

### Contract value, nominal value and hedging period of cash flow hedge derivatives for commodity price risks

EUR '000

| | 31/12/2014 | | | | | 31/12/2013 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Contract value[1] in '000 | Positive fair value | Negative fair value | Net fair value | Hedging period until | Contract value[1] in '000 | Positive fair value | Negative fair value | Net fair value | Hedging period until |
| Gas swaps | | | | | | | | | | |
| | USD 0 | 0 | 0 | 0 | n/a | USD 3,262 | 8 | (195) | (187) | 12/2015 |
| | GBP 5,767 | 0 | (1,576) | (1,576) | 03/2016 | GBP 9,715 | 140 | (415) | (275) | 03/2016 |
| **Total** | | **0** | **(1,576)** | **(1,576)** | | | **148** | **(610)** | **(462)** | |

Fair value: + = receivable, - = liability from the Lenzing Group's perspective (each shown as net position)
The hedging period stated is equivalent to the period of the expected cash flows and their recognition in profit or loss.

## Sensitivity analysis and exposure for commodity price risks

Sensitivity analyses are performed for the price change risk from gas swaps. They show the effects of hypothetical changes in gas prices on profit or loss/other comprehensive income/equity.

The Lenzing Group uses the following assumptions in its analysis:

- Open derivatives from cash flow hedges as at the reporting date are used as the basis for the sensitivity.
- The exposure corresponds to the nominal values of the derivatives (not including the hedged items). In economic terms, the derivatives are used to hedge physical hedged items that will impact profit or loss in subsequent periods, meaning that from an economic perspective there is no risk exposure in combination with the hedged items.

If the market price level for gas had been 10% higher/lower as at December 31, 2014, this would have changed other comprehensive income/equity before tax by +/- EUR 581 thousand (December 31, 2013: +/- EUR 1,369 thousand).

## Interest rate risk

The Lenzing Group is exposed to interest rate risk as a result of its business-related financing and investment activities. Interest rate risks arise as a result of potential changes in the market interest rate. They can lead to a change in fair value in the case of fixed-rate financial instruments and to fluctuations in the cash flows from interest payments in the case of 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 occasionally by using derivative financial instruments. The level of the resulting risk concentration as at the reporting date can be seen in the "Risk exposure for interest

[1] Corresponds to the exposure

rate risks" table below. The decisive factor for management is the effect of the interest rate risk on earnings. There were no outstanding interest rate derivatives as at the reporting dates.

## Sensitivity analysis and exposure for interest rate risks

As at the reporting dates, the exposure for interest rate risks in the form of the carrying amounts of interest-bearing primary financial instruments is as follows:

### Risk exposure for interest rate risks — EUR '000

| | 31/12/2014 | | | | |
|---|---|---|---|---|---|
| | Fixed interest | Fixed and floating-rate interest | Floating-rate interest | No interest | Total |
| Cash and cash equivalents | 0 | 0 | 271,791 | 0 | 271,791 |
| Financial assets[1] | 3,754 | 0 | 1,815 | 17,626 | 23,194 |
| Financial liabilities | (311,595) | (21,983) | (396,200) | 0 | (729,778) |
| **Total** | **(307,841)** | **(21,983)** | **(122,594)** | **17,626** | **(434,793)** |

### Risk exposure for interest rate risks (previous year) — EUR '000

| | 31/12/2013 | | | | |
|---|---|---|---|---|---|
| | Fixed interest | Fixed and floating-rate interest | Floating-rate interest | No interest | Total |
| Cash and cash equivalents | 0 | 0 | 287,882 | 0 | 287,882 |
| Financial assets[1] | 3,755 | 0 | 1,701 | 17,720 | 23,176 |
| Financial liabilities | (336,687) | (25,416) | (438,576) | 0 | (800,680) |
| **Total** | **(332,933)** | **(25,416)** | **(148,993)** | **17,720** | **(489,622)** |

+ receivables, - liabilities

Sensitivity analyses are performed for interest rate risks from floating-rate financial instruments. They show the effects of hypothetical changes in interest rates on profit or loss/other comprehensive income/equity.

The Lenzing Group uses the following assumptions in its analysis:

- All floating-rate primary financial instruments as at the reporting date are used as the basis for the sensitivity.
- The exposure corresponds to the carrying amount of the floating-rate financial instruments.

[1] Includes the wholesale fund GF82, whose income is distributed or reinvested.

The sensitivities and exposure for interest rate risks 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

| 31/12/2014 | Exposure with floating-rate interest | Sensitivity in the event of 100 bp increase in interest rate level | Sensitivity in the event of 100 bp decrease in interest rate level |
|---|---|---|---|
| Cash and cash equivalents | 271,791 | 2,718 | (2,718) |
| Financial assets | 1,815 | 18 | (18) |
| Financial liabilities | (396,200) | (3,962) | 3,962 |
| **Sensitivity of profit or loss/ of equity** | **(122,594)** | **(1,226)** | **1,226** |

### Sensitivity analysis for interest rate risks from floating-rate financial instruments (previous year) — EUR '000

| 31/12/2013 | Exposure with floating-rate interest | Sensitivity in the event of 100 bp increase in interest rate level | Sensitivity in the event of 100 bp decrease in interest rate level |
|---|---|---|---|
| Cash and cash equivalents | 287,882 | 2,879 | (2,879) |
| Financial assets | 1,701 | 17 | (17) |
| Financial liabilities | (438,576) | (4,386) | 4,386 |
| **Sensitivity of profit or loss/ of equity** | **(148,993)** | **(1,490)** | **1,490** |

Further information on financial risk management and financial instruments can be found in the risk report of the Lenzing Group management report as at December 31, 2014 (particularly in the section on "Use of financial instruments").

## Notes on Leases

### NOTE 42 Finance leases

Property, plant and equipment includes development rights and other assets from finance leases in which the Lenzing Group is the lessee.

The finance lease for development rights relates to land handed over to Lenzing AG for use in exchange for an index-linked lease payment. After the end of the lease, Lenzing AG has the right to acquire the land at its market value. The lease has a term of 99 years.

The other finance leases include agreements on the modernization of small hydro power plants, in which the lessor undertakes 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 which is considered a contingent lease payment. After the agreements expire, ownership of the power plants will be transferred to Lenzing AG in exchange for payment of a transfer fee. The lease has a term of 25 years. In addition, there are finance leases concerning agreements on an industrial primary clarifier and related expansion investments. After the agreements expire, the ownership of the plant including the land can be transferred to Lenzing AG in exchange for payment of a transfer fee. The lease has a term of 16 years.

The carrying amount of the leased assets is as follows:

### Carrying amount of leased assets — EUR '000

| 2014 | Land and buildings | Technical equipment and machinery, factory and office equipment | Down payments and assets under construction | Total |
|---|---|---|---|---|
| Cost | 668 | 2,145 | 1,404 | 4,217 |
| Accumulated depreciation | (78) | (339) | 0 | (418) |
| **Carrying amount 31/12/2014** | **589** | **1,805** | **1,404** | **3,799** |

### Carrying amount of leased assets (previous year) — EUR '000

| 2013 | Land and buildings | Technical equipment and machinery, factory and office equipment | Down payments and assets under construction | Total |
|---|---|---|---|---|
| Cost | 660 | 848 | 0 | 1,508 |
| Accumulated depreciation | (72) | (163) | 0 | (235) |
| **Carrying amount 31/12/2013** | **588** | **686** | **0** | **1,274** |

The present value of minimum lease payments breaks down as follows:

### Minimum lease payments as lessee (finance leases) — EUR '000

| | 31/12/2014 | | | | 31/12/2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | < 1 year | 1-5 years | > 5 years | Total | < 1 year | 1-5 years | > 5 years | Total |
| Total future minimum lease payments | 412 | 2,176 | 6,601 | 9,188 | 20 | 79 | 6,493 | 6,592 |
| Thereof interest component | (23) | (60) | (4,623) | (4,707) | (1) | (10) | (4,699) | (4,710) |
| **Total** | **389** | **2,115** | **1,978** | **4,482** | **19** | **69** | **1,794** | **1,882** |

Finance lease obligations are included under "Financial liabilities" in the consolidated statement of financial position (see Note 31).

In financial year 2014, contingent lease payments of EUR 404 thousand (2013: EUR 601 thousand) were recognized. They relate to the maintenance fee for the power plants.

In addition, interest expense of EUR 82 thousand (2013: EUR 71 thousand) from finance leases was recognized.

## NOTE 43 Operating leases

### The Lenzing Group as lessee

There are obligations from rental and lease agreements for property, plant and equipment that is not reported in the consolidated statement of financial position. Earnings before interest and taxes in 2014 include expenses from rental and lease agreements amounting to EUR 7,513 thousand (2013: EUR 9,474 thousand). They chiefly consist of minimum lease payments.

The future minimum lease payments during the non-cancellable term of these lease agreements relating to IT equipment, vehicles, rail cars and office and storage premises break down as follows, classified by year:

**Minimum lease payments as lessee (operating leases)** EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| In subsequent year | 5,704 | 5,994 |
| In the following 2-5 years | 12,337 | 12,546 |
| Thereafter | 1,507 | 176 |
| **Total** | **19,548** | **18,716** |

The conditions of the main operating leases can be summarized as follows:

- **IT equipment:** The lease agreements have a term of up to three years. There are no price adjustment clauses.
- **Vehicles:** The lease agreements have a term of up to five years. These agreements do not provide for any possibility to acquire the vehicles at the end of the contractual term and there are no price adjustment clauses.
- **Rail cars:** The lease agreements have a term of up to 13 years. The agreements can be canceled after a minimum term. There are price adjustment clauses in some cases.

- **Office and storage premises:** The lease agreements have a term of up to five years. These agreements do not provide for any possibility to acquire the office and storage premises at the end of the contractual term. There are extension options and price adjustment clauses in some cases.

### The Lenzing Group as lessor

The future minimum lease payments during the non-cancellable term of the lease agreements mainly relate to land and buildings and break down as follows, classified by year:

**Minimum lease payments as lessor (operating leases)** EUR '000

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| In subsequent year | 2,842 | 2,471 |
| In the following 2-5 years | 4,640 | 4,590 |
| Thereafter | 10,989 | 11,965 |
| **Total** | **18,471** | **19,026** |

The most significant lease agreement relates to land where the recycling plant is operated by RVL Reststoffverwertung Lenzing GmbH. The lease payments are index-linked. The lease was concluded for an indefinite term and can be canceled at the earliest as at December 31, 2029, subject to a notice period of six years.

## Notes on Related Parties and Corporate Bodies

## NOTE 44 Related party disclosures

### Overview

Related parties are companies and individuals who are related to the Lenzing Group according to the IFRS definition. Related parties of the Lenzing Group particularly include B&C Lenzing Holding GmbH, B&C Iota GmbH & Co. KG, B&C Industrieholding GmbH and B&C Privatstiftung and their subsidiaries, joint ventures and associates. They also include the members of the corporate bodies (Management Board/Management and Supervisory Board, if any) of Lenzing AG, B&C Lenzing Holding GmbH, B&C Iota GmbH & Co KG, B&C Industrieholding GmbH and B&C Privatstiftung, their close family members and companies under their influence.

The fundamental relationships (ownership structures) between the Lenzing Group and the B&C Group are described in Note 1 (section on "Description of the company and its business activities"). The corporate bodies of Lenzing AG are listed in Note 45.

B&C Privatstiftung is managed by a Board of Trustees. No member of the Lenzing AG Management Board is a member of the Board of Trustees or of the management/Management Boards of subsidiaries of B&C Privatstiftung, with the exception of subsidiaries of the Lenzing Group. The Lenzing Group has no influence on the business activities of B&C Privatstiftung.

The amounts and transactions between Lenzing AG and its fully consolidated subsidiaries are eliminated on consolidation and are not discussed any further here.

In some cases, the members of the corporate bodies of Lenzing AG and the entities mentioned above are also members of corporate bodies or shareholders of other companies with which Lenzing AG maintains ordinary business relationships.

There are ordinary business relationships with banks, including in the areas of financing, investment and derivatives.

## Relationships with related companies

Lenzing AG and the subsidiaries included in the tax group agreement are members of the tax group concluded on September 25, 2009 between B&C Industrieholding GmbH as the group parent and Lenzing AG and other subsidiaries of Lenzing AG as group members in accordance with section 9 of the Austrian Corporation Tax Act (österreichisches Körperschaftsteuergesetz – öKStG) (for more information, see the section on "Current taxes and deferred taxes" under Accounting Policies, Note 3).

The Lenzing Group recognized a tax credit from the tax group of EUR 3,000 thousand in income in the 2014 financial year (2013: EUR 1,773 thousand). In accordance with the contractual obligation, advances on the tax allocation were paid to B&C Industrieholding GmbH in the amount of EUR 9,605 thousand in 2014 (2013: EUR 44,000 thousand).

As at December 31, 2014, the Lenzing Group recognized a liability of EUR 16,591 thousand (December 31, 2013: EUR 8,195 thousand) to B&C Industrieholding GmbH from the tax allocation after deduction of the advances. This is reported in the "Current tax liabilities" item of the statement of financial position. In 2014, income tax expense of EUR 15,852 thousand (2013: EUR 13,957 thousand) was recognized as a result of the tax allocation to B&C Industrieholding GmbH.

In addition, B&C Industrieholding GmbH charged costs of EUR 172 thousand (2013: EUR 0 thousand) to Lenzing AG.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## 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 mainly relate to:

| | |
|---|---|
| **EQUI-Fibres Beteiligungsgesellschaft mbH and its subsidiaries (EFB):** | ■ Distribution of fibers<br>■ Delivery of pulp and of machinery and equipment<br>■ Procurement of infrastructure, installation and administrative services<br>■ Purchase of textile material |
| **Lenzing Papier GmbH (LPP):** | ■ Provision of infrastructure and administrative services |
| **RVL Reststoffverwertung Lenzing GmbH (RVL):** | ■ Operation of a recycling plant and purchase of the steam generated; rent of a plot of land |
| **Gemeinnützige Siedlungsgesellschaft m.b.H. für den Bezirk Vöcklabruck (GSG):** | ■ Provision of infrastructure and administrative services |
| **PT. Pura Golden Lion (PGL):** | ■ Loans payable |
| **Wood Paskov s.r.o. (LWP):** | ■ Purchase of wood |

The extent of material transactions and the amounts of outstanding balances with companies accounted for using the equity method and their material subsidiaries were as follows:

### Relationships with companies accounted for using the equity method and their material subsidiaries

EUR '000

| | EFB | LPP | GSG | PGL | Total associates | RVL | LWP | Total joint ventures |
|---|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | | |
| Revenue | 51.164 | 11.377 | 70 | 0 | **62.610** | 11.017 | 0 | **11.017** |
| Other operating income | 1.074 | 216 | 74 | 0 | **1.364** | 0 | 29 | **29** |
| Cost of material | (44.300) | (3) | 0 | 0 | **(44.303)** | 0 | (154) | **(154)** |
| Purchased services | (12.497) | 1 | 0 | 0 | **(12.496)** | (11.017) | 0 | **(11.017)** |
| Other operating expenses | (167) | (45) | (68) | 0 | **(280)** | (15) | 0 | **(15)** |
| Interest expense | 0 | 0 | 0 | (67) | **(67)** | 0 | 0 | **0** |
| Interest income | 0 | 0 | 0 | 0 | **0** | 0 | 0 | **0** |
| **31/12/2014** | | | | | | | | |
| Trade receivables | 4.835 | 4.953 | 8 | 0 | **9.796** | 0 | 6 | **6** |
| Trade payables | 4.064 | 6 | 0 | 0 | **4.070** | 0 | 28 | **28** |
| Loan liabilities | 0 | 0 | 0 | 2.194 | **2.194** | 0 | 0 | **0** |
| Other liabilities | 0 | 40 | 0 | 0 | **40** | 0 | 0 | **0** |

## Relationships with companies accounted for using the equity method and their material subsidiaries (previous year)

EUR '000

| | EFB | LPP | GSG | PGL | Total associates | RVL | LWP | Total joint ventures |
|---|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | | |
| Revenue | 57.584 | 11.255 | 83 | 0 | **68.922** | 11.223 | 0 | **11.223** |
| Other operating income | 1.139 | 4 | 70 | 0 | **1.213** | 0 | 19 | **19** |
| Cost of material | (79.778) | (5) | 0 | 0 | **(79.783)** | 0 | (143) | **(143)** |
| Purchased services | (10.278) | (1) | 0 | 0 | **(10.279)** | (11.223) | 0 | **(11.223)** |
| Other operating expenses | (75) | 247 | (69) | 0 | **104** | (46) | (1) | **(48)** |
| Interest expense | 0 | 0 | 0 | (61) | **(61)** | 0 | 0 | **0** |
| Interest income | 0 | 0 | 4 | 0 | **4** | 0 | 0 | **0** |
| **31/12/2013** | | | | | | | | |
| Trade receivables | 7.449 | 3.446 | 0 | 0 | **10.896** | 0 | 6 | **6** |
| Trade payables | 9.208 | 6 | 0 | 0 | **9.214** | 1 | 0 | **1** |
| Loan liabilities | 0 | 0 | 0 | 1.885 | **1.885** | 0 | 0 | **0** |
| Other liabilities | 0 | 10 | 0 | 0 | **10** | 0 | 0 | **0** |

Bad debt provisions for trade receivables from companies accounted for using the equity method in the amount of EUR 24 thousand were recognized in profit or loss as an expense (2013: income of EUR 255 thousand).

There were no material transactions with non-consolidated subsidiaries in either of the two financial years.

## Relationships with members of the Management Board and of the Supervisory Board of Lenzing AG

The fixed and variable current remuneration and termination pay expensed by Lenzing AG for the active members of the Management Board break down as follows:

## Fixed and variable current remuneration and termination pay for active members of the Management Board (expensed)

EUR '000

| | Peter Untersperger | | Thomas Riegler | | Robert van de Kerkhof | | Friedrich Weninger[1] | | Thomas Winkler[2] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Fixed current remuneration | 585 | 566 | 259 | 0 | 292 | 0 | 435 | 434 | 0 | 435 | 1,571 | 1,434 |
| Variable current remuneration | 190 | 318 | 116 | 0 | 133 | 0 | 315 | 352 | 0 | 39 | 754 | 708 |
| Termination pay | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,620 | 0 | 1,620 |
| **Total** | **774** | **884** | **376** | **0** | **425** | **0** | **750** | **785** | **0** | **2,094** | **2,325** | **3,763** |

[1] Member of the Management Board until December 31, 2014. [2] Member of the Management Board until December 31, 2013.

Of the amounts presented above totaling EUR 2,325 thousand in financial year 2014 (2013: EUR 3,763 thousand), EUR 2,325 thousand in total (fixed and variable current remuneration; 2013: EUR 2,142 thousand) relates to short-term employee benefits and EUR 0 thousand in total (termination pay; 2013: EUR 1,620 thousand) relates to termination benefits. In addition, provisions for entitlements of active Management Board members derived from long-term bonus bank models (other long-term employee benefits) decreased by EUR 47 thousand in the 2014 financial year (2013: increase of EUR 300 thousand); another EUR 309 thousand (2013: EUR 0 thousand) was expensed for the settlement of entitlements. In addition, EUR 138 thousand was released to profit or loss for vacation compensation (short-term employee benefits), taking into account the amounts previously provided for (2013: EUR 0 thousand). Moreover, the active members of the Management Board were granted post-employment benefits in the amount of EUR 295 thousand (2013: EUR 245 thousand) by providing for company pension and severance plans in the income statement and in other comprehensive income. The expenses for the active Supervisory Board members (short-term employee benefits in the form of remuneration for the Supervisory Board members including attendance fees) amounted to EUR 436 thousand for the 2014 financial year (2013: EUR 291 thousand). Hence, remuneration expensed for key management personnel, which comprises active members of the Management Board and of the Supervisory Board of Lenzing AG, in line with their functions, is summarized below:

## Remuneration for key management personnel (expensed)

| | 2014 | 2013 |
|---|---|---|
| **Remuneration for the Management Board** | | |
| Short-term employee benefits | 2,186 | 2,143 |
| Other long-term employee benefits | 262 | 300 |
| Termination benefits | 0 | 1,620 |
| Post-employment benefits | 295 | 245 |
| Share-based remuneration | 0 | 0 |
| | **2,743** | **4,308** |
| Remuneration for the Supervisory Board (short-term employee benefits) | 436 | 291 |
| **Total** | **3,180** | **4,599** |

In the 2014 financial year, prior to their engagement to the board, members of the Management Board provided services to the Lenzing Group in the amount of EUR 102 thousand (2013: EUR 0 thousand).

The present value of the provision for severance payments recognized for active members of the Management Board amounts to EUR 838 thousand as at December 31, 2014 (December 31, 2013: EUR 748 thousand).

In addition to the benefits above, the employee representatives on the Supervisory Board who were delegated by the Works Council are entitled to regular payment (wage or salary and severance and jubilee benefits) under their employment contracts. This payment represents appropriate remuneration for the role/activities performed in the company.

In line with usual market and corporate practice, Lenzing AG also grants additional benefits that are considered non-monetary benefits to the members of the Management Board, as well as some senior executives and Supervisory Board members. For example, insurance coverage (D&O, accident, legal protection etc.) is provided, with the costs borne by the Lenzing Group. Overall premium payments are made to the insurers, meaning that there is no specific allocation to the Management Board and the Supervisory Board. In addition, the members of the Management Board and some senior executives are provided with company vehicles for their use. Moreover, expenses, especially travel expenses, incurred by members of the Management Board and the Supervisory Board are reimbursed.

The principles of the remuneration system for the Management Board and the Supervisory Board are described in detail and published in the 2014 Corporate Governance Report of the Lenzing Group.

No advances, loans or guarantees have been granted to members of the Management Board and the Supervisory Board. The Lenzing Group has not entered into any contingencies for the benefit of the Management Board and the Supervisory Board. Directors' dealings reports regarding members of the Management Board and the Supervisory Board are published on the Austrian Financial Market Authority website (see **http://www.fma.gv.at**).

Post-employment benefits for former members of the Management Board of Lenzing AG (who left before January 1, 2013) or their surviving dependents in the amount of EUR 1,652 thousand (2013: EUR 240 thousand) were recognized in the form of expenses in the income statement and allocations in 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) amounts to EUR 7,921 thousand as at December 31, 2014 (December 31, 2013: EUR 6,941 thousand).

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## NOTE 45 Corporate bodies of the company

### Members of the Supervisory Board

**Michael Junghans, Vienna**
Chairman

**Hanno Bästlein, Vienna**
Vice-Chairman (since April 28, 2014)

**Veit Sorger, Vienna**
Vice-Chairman

**Helmut Bernkopf, Vienna**

**Franz Gasselsberger, Linz**
(since April 24, 2013)

**Josef Krenner, Linz**

**Patrick Prügger, Vienna**

**Andreas Schmidradner, Vienna**

**Astrid Skala-Kuhmann, Icking (Germany)**

**Martin Payer, Leoben**
(until April 28, 2014)

### Members of the Management Board

**Peter Untersperger, Linz**
Chief Executive Officer (CEO)
Chairman of the Management Board

**Thomas Riegler, Salzburg**
Chief Financial Officer (CFO)
Member of the Management Board
(since June 1, 2014)

**Robert van de Kerkhof, Mondsee**
Chief Commercial Officer (CCO)
Member of the Management Board
(since May 1, 2014)

**Friedrich Weninger, Mondsee**
Chief Operating Officer (COO)
Member of the Management Board
(until December 31, 2014)

**Thomas G. Winkler, Salzburg**
Chief Financial Officer (CFO)
Member of the Management Board
(until December 31, 2013)

### Designated by the Works Council

**Rudolf Baldinger, Lenzing**
Chairman of the Works Committee
Chairman of the Works Council for Waged Employees

**Georg Liftinger, Weyregg am Attersee**
Vice-Chairman of the Works Committee
Chairman of the Works Council for Salaried Employees

**Daniela Födinger, Seewalchen am Attersee**
Vice-Chairman of the Works Council for Salaried Employees
(since April 28, 2014)

**Johann Schernberger, Regau**
Vice-Chairman of the Works Council for Waged Employees

**Franz Berlanda, Wolfsegg am Hausruck**
Vice-Chairman of the Works Council for Waged Employees
(since April 28, 2014)

**Gerhard Ratzesberger, Lenzing**
Vice-Chairman of the Works Council for Salaried Employees
(until April 28, 2014)

## Other Notes

### NOTE 46 Financial guarantee contracts, contingent assets and liabilities, other financial obligations and legal risks

There are contingent liabilities, in particular to secure the claims of certain sold equity investments and suppliers, as well as for possible default of payment related to receivables sold (see also Note 39) and of third parties outside the Group in the amount of EUR 27,105 thousand (December 31, 2013: EUR 15,387 thousand) and, to a lesser extent, retentions granted, that have not yet been recognized as actual liabilities. The amounts shown represent the maximum financial risk to the Lenzing Group. The potential for recoveries exists to a limited extent only for the obligations and liabilities relating to the claims of certain sold equity investments. Of the amount mentioned above, EUR 10,322 thousand (December 31, 2013: EUR 0 thousand) relates to financial guarantee contracts. It is predominantly considered unlikely that the Group will be required to make payments under these financial guarantee contracts. Liabilities at the amount of the fair values of these financial guarantee contracts of EUR 159 thousand were recognized as at December 31, 2014 (December 31, 2013: EUR 0 thousand).

The Lenzing Group bears obligations for severance payments and jubilee benefits for former employees of certain sold equity investments up to the amount of the notional claims as at the date of the sale. Provisions have been recognized for these obligations as at the end of the reporting period in the amount of the present value according to actuarial principles and presented according to their maturity.

As at December 31, 2014, obligations for outstanding orders of intangible assets and property, plant and equipment amounted to EUR 10,361 thousand (December 31, 2013: EUR 34,321 thousand).

In addition, Lenzing AG in particular has assumed contingent liabilities to secure third-party claims against fully consolidated companies that are considered unlikely to become effective.

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.

As an international group, the Lenzing Group is exposed to a variety of legal and other risks. In particular, these include risks in the areas of product defects, competition and antitrust law, patent law, tax law, employees and environmental protection. The Lenzing site has been used for industrial purposes for decades and therefore carries an inherent risk of environmental damage. In 1990, Lenzing AG was informed that there is an area of potential pollution here that was previously used as a sedimentation pond and could therefore be contaminated. The company sealed off the area to prevent contamination of the groundwater. The outcomes of currently pending proceedings or future proceedings cannot be predicted, hence expenses that are not fully covered by insurance and that can have a material impact on the future financial position and financial performance of the Group can arise as a result of court or official rulings or settlement agreements. Further information can be found in the risk report of the Lenzing Group management report as at December 31, 2014.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

There are legal disputes pending in the Group as a result of its operating activities, particularly in the area of patent law. The Management Board is assuming at this time that the currently known proceedings will not have a significant impact on the current financial position and financial performance of the Group, or it has provided sufficiently for the corresponding risks. Regardless of this careful assessment, residual risks still remain.

## NOTE 47 Group companies

In addition to Lenzing AG, the Lenzing Group includes the following Group companies (list of Group companies in accordance with section 245a para 1 in conjunction with section 265 para 2 of the Austrian Commercial Code (öUGB)):

| Group companies | | 31/12/2014 | | 31/12/2013 | |
|---|---|---|---|---|---|
| | Currency | Share capital | Share | Share capital | Share |
| **Fully consolidated companies:** | | | in % | | in % |
| ASIA Fiber Engineering GmbH, Vienna, Austria | 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, Austria | EUR | 36.336 | 100,00 | 36.336 | 100,00 |
| Dolan GmbH, Kelheim, Germany | EUR | 1.000.000 | 100,00 | 1.000.000 | 100,00 |
| Energie- und Medienzentrale Heiligenkreuz GmbH, Heiligenkreuz, Austria | EUR | 72.673 | 100,00 | 72.673 | 100,00 |
| European Carbon Fiber GmbH, Kelheim, Germany | EUR | 25.000 | 91,07 | 25.000 | 100,00 |
| LENO Electronics GmbH, Lenzing, Austria | EUR | 40.000 | 100,00 | 40.000 | 100,00 |
| Lenzing Beteiligungs GmbH, Lenzing, Austria[1] | EUR | 35.000 | 100,00 | 35.000 | 100,00 |
| Lenzing Engineering and Technical Services (Nanjing) Co., Ltd., Nanjing, China | USD | 2.100.000 | 100,00 | 2.100.000 | 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., Mobile, 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 Land Holding LLC., Dover, USA | USD | 10.000 | 100,00 | - | - |
| Lenzing Modi Fibers India Private Limited, Mumbai, India | INR | 1.148.681.290 | 96,41 | 1.118.064.800 | 96,31 |
| Lenzing (Nanjing) Fibers Co., Ltd., Nanjing, China | USD | 64.440.000 | 70,00 | 64.440.000 | 70,00 |
| LP Automotive GmbH, Lenzing, Austria | EUR | 35.000 | 100,00 | 35.000 | 100,00 |
| Lenzing Technik GmbH, Lenzing, Austria | EUR | 35.000 | 100,00 | 35.000 | 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 |
| Tencel Holding Limited, Manchester, UK | GBP | 1 | 100,00 | 1 | 100,00 |
| Wasserreinhaltungsverband Lenzing – Lenzing AG, Lenzing, Austria[3] | EUR | 0 | Member-ship | 0 | Member-ship |

## Group companies

| | | 31/12/2014 | | 31/12/2013 | |
|---|---|---|---|---|---|
| | Currency | Share capital | Share | Share capital | Share |
| **Companies accounted for using the equity method:** | | | in % | | in % |
| **Associates:** | | | | | |
| EQUI-Fibres Beteiligungsgesellschaft mbH, Kelheim, Germany[4] | EUR | 2.000.000 | 45,00 | 2.000.000 | 45,00 |
| Gemeinnützige Siedlungsgesellschaft m.b.H. für den Bezirk Vöcklabruck, Lenzing, Austria[5] | 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 | TRY | 200.000 | 33,34 | 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 company:** | | | | | |
| European Precursor GmbH, Kelheim, Germany[6] | EUR | 25.000 | 95,00 | 25.000 | 95,00 |

1) Reporting date is Sep. 30, interim financial statements are prepared as at Dec. 31.

2) Share: The share held directly by the Lenzing Group is 88.08% (December 31, 2013: 88.08%). Another 11.92% of the shares are held indirectly via PT. Pura Golden Lion, Jakarta, Indonesia, an associate of the Lenzing Group. The total calculated share is therefore 92.85%.

3) Explanation: The Lenzing Group participates in Wasserreinhaltungsverband Lenzing – Lenzing AG, Lenzing, via a membership. It holds 50% of the voting rights and can appoint half of the Management Board members. Since under company law all assets are attributable to the respective landowner, the entity is notionally a separate company (what is known as a "silo structure"). Assets located on the Lenzing Group's land are therefore included in consolidation. Costs incurred in the association are allocated to its members according to source.

4) Explanation: The Lenzing Group has the right to acquire additional shares and voting rights in EQUI-Fibres Beteiligungsgesellschaft, Kelheim, Germany. This right is currently not considered substantial, because the Lenzing Group does not believe the exercisability of this right is sufficiently likely from a legal point of view. Therefore, the Lenzing Group does not control this company. However, the Lenzing Group exerts a significant influence over the financial and operating policies of this company. This means the company is an associate accounted for using the equity method.

5) Explanation: The investment in Gemeinnützige Siedlungsgesellschaft m.b.H. für den Bezirk Vöcklabruck, Lenzing, is not included in the consolidated financial statements as a subsidiary, even though the Lenzing Group holds 99.9% of the voting rights in this company. According to the general circumstances, the Lenzing Group does not control this company because its power is limited and the returns hardly vary or can hardly be influenced by the Lenzing Group. In particular because of its representation in management bodies and its participation in decision-making processes, it exerts significant influence over the financial and operating policies of this company. This means the company is an associate accounted for using the equity method.

6) Explanation: The company is in liquidation, which was largely completed from an economic perspective as at December 31, 2013. Under the German Commercial Code (dHGB), this company's equity in the liquidation opening balance sheet amounted to EUR -21,056 thousand as at December 31, 2013 (EUR -25,624 thousand as at December 31, 2012; loss 2012: EUR 29,282 thousand ). After the waiver of loans still to be formally executed by the shareholders, equity will approximate zero. The Lenzing Group does not expect any further material negative effects. On the basis of its immateriality from the Group perspective, it is not consolidated.

# CONSOLIDATED FINANCIAL STATEMENTS 2014

## NOTE 48 Significant events after the end of the reporting period

In the first quarter of 2015, concrete negotiations took place with respect to a potential sale of Dolan GmbH and European Carbon Fiber GmbH. These two Group companies in the Segment Other had assets of TEUR 30,768 and liabilities of TEUR 13,482 as at December 31, 2014. The disposal could take place within the next twelve months.

The Lenzing Group has not been made aware of any further events significant to it after December 31, 2014 that would have resulted in a different presentation of the financial position and financial performance.

## NOTE 49 Authorization of the consolidated financial statements

These consolidated financial statements were approved by the Management Board on March 12, 2015 (December 31, 2013: March 4, 2014) for review by the Supervisory Board, presentation to the Shareholders' Meeting and subsequent publication. The Supervisory Board may have changes made to the consolidated financial statements as part of the review for which it is responsible.

Lenzing, March 12, 2015
**Lenzing Aktiengesellschaft**

### The Management Board

**Peter Untersperger**
Chief Executive Officer
Chairman of the
Management Board

**Thomas Riegler**
Chief Financial Officer
Member of the
Management Board

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

# AUDITOR'S REPORT

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Lenzing Aktiengesellschaft, Lenzing, for the fiscal year from January 1, 2014 to December 31, 2014. These consolidated financial statements comprise the consolidated statement of financial position as at December 31, 2014, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of comprehensive income and the consolidated statement of changes in equity for the fiscal year ended December 31, 2014, and the notes.

### Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

The Company's management is responsible for the group accounting system and for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements under Section 245a UGB. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

## Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as at December 31, 2014 and of its financial performance and its cash flows for the fiscal year from January 1, 2014 to December 31, 2014 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

## Comments on the Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report for the Group is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, March 12, 2015

Deloitte.
Deloitte Audit Wirtschaftsprüfungs GmbH

| | |
|---|---|
| Walter Müller<br>Certified Public Accountant | Ulrich Dollinger<br>Certified Public Accountant |

The report is a translation from the original auditor's report in German, which is solely valid. Publishing or transmitting of the consolidated financial statements including our audit opinion may only take place in conformity with the audit version above. This auditors' report refers only to the complete German version of the consolidated financial statements complete with the management report. Section 281, paragraph 2 of the Austrian Commercial Code applies to any other versions.

# DECLARATION OF THE MANAGEMENT BOARD

## Declaration of the Management Board pursuant to Section 82 para 4 no 3 of the Stock Exchange Act

We declare to the best of our knowledge that the consolidated financial statements of the Lenzing Group as at December 31, 2014 that were prepared in accordance with the relevant accounting standards pursuant to International Financial Reporting Standards (IFRSs) give a true and fair view of the financial position and financial performance of the Lenzing Group.

In addition, we declare to the best of our knowledge that the management report presents the development and performance of the business in a way that conveys a true and fair view of the financial position and financial performance of the Lenzing Group, and that it describes the principal risks and uncertainties faced by the Lenzing Group.

Lenzing, March 12, 2015

### The Management Board

**Peter Untersperger**
Chief Executive Officer
Chairman of the
Management Board

**Thomas Riegler**
Chief Financial Officer
Member of the
Management Board

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

# REPORT OF THE SUPERVISORY BOARD OF LENZING AG

## To the 71st Annual Shareholders´ Meeting:

### Dear shareholders!

At six meetings held during the 2014 financial year, the Supervisory Board of Lenzing AG was informed by the Management Board about the company's business development, discussed important business transactions and measures with the Management Board and passed the required resolutions. The Supervisory Board supported the strategy project initiated by the Management Board in June 2014, and the conclusion of the project in December 2014 laid the foundation for the strategic further development of the company. The far-reaching cost reduction program excelLENZ 2.0 imposed on the Lenzing Group by the Management Board in 2013 to safeguard Lenzing's competitiveness was another focal point of the Supervisory Board's work in 2014. The adjustments in the value of goodwill and property, plant and equipment recognized in the consolidated financial statements for 2014 as a result of the lower selling price expectations comprise non-recurring effects burdening the annual results of the company in 2014. These forward-looking measures are non-cash items and do not have any negative impact on the liquidity and net financial debt of the Group.

The Management Board submitted a detailed written report to the Supervisory Board at each meeting about all relevant issues relating to the business development, the financial position and financial performance of Lenzing AG and the Lenzing Group. In addition, the Chairman and Deputy Chairman of the Supervisory Board were provided with information on a regular basis by the Management Board.

The Audit Committee of the Supervisory Board convened three times, and in addition to examining and preparing the adoption of the annual and the consolidated financial statements, also fulfilled its duties and responsibilities as stipulated in Section 92 para 4a Austrian Stock Corporation Act. In particular, the Supervisory Board monitored the financial reporting processes as well as the effectiveness of the internal control, audit and risk management systems.

The Supervisory Board set up a Remuneration Committee which focuses on the employment contracts of Management Board members, ensures adherence to C-Rules 27, 27a and 28 and regularly reviews the remuneration policies for Management Board members. Two meetings of the Remuneration Committee took place during the 2014 financial year, particularly dealing with the evaluation of the Management Board with respect to the 2013 financial year, defining performance targets for 2014, discussing other general remuneration issues pertaining to the Management Board, and terminating the employment contract with Friedrich Weninger, who resigned from his position on the Management Board of Lenzing AG as of December 31, 2014.

The Supervisory Board established a Strategy Committee which deals with the business strategy of the company and monitors the strategic measures being implemented by the Management Board along with the relevant company-specific key performance indicators. In 2014 the Strategy Committee primarily dealt with the strategy project initiated by the Management Board. Four meetings of the Strategy Committee were held in 2014.

The new “excelLENZ Committee“ set up by the Supervisory Board in April 2014 focused on the ongoing support and monitoring of operational measures implemented within the context of the far-reaching cost reduction and efficiency enhancement program excelLENZ 2.0. Three meetings of the committee took place in the 2014 financial year.

The Share Buyback Committee authorized by the Annual Shareholders´ Meeting in April 2014 did not convene in the 2014 financial year.

Further information pertaining to the composition and mode of operation of the Supervisory Board and its remuneration are available in the Corporate Governance Report.

The annual financial statements including the Management Report and Corporate Governance Report of Lenzing AG as well as the consolidated financial statements and the Group Management Report of the Lenzing Group as at 31 December 2014 were audited by Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna and granted an unqualified auditor's opinion.

The Audit Committee of the Supervisory Board reviewed the annual and the consolidated financial statements, the Management Report and Group Management Report, the proposal of the Management Board for the appropriation of the accumulated profits along with the Corporate Governance Report. The Audit Committee also intensively focused on the auditor's reports and exhaustively discussed the results of the audit in detail with the auditor. On the basis of its own review, the Audit Committee concurred with the results of the auditor's report. The Audit Committee dutifully reported to the Supervisory Board on this matter and recommended that the Supervisory Board propose the appointment of Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna again to the Shareholders´ Meeting to serve as the auditors for the 2015 financial year.

Following its own detailed review, the Supervisory Board declared its formal approval of the Management Report and Corporate Governance Report, and thus hereby adopted the annual financial statements for 2014 pursuant to Section 96 para 4 Austrian Stock Corporation Act. Furthermore, it declared its approval of the consolidated financial statements and Group Management Report in accordance with Section 244 and Section 245a Austrian Commercial Code. The Supervisory Board concurred with the Management Board's proposal on the distribution of the accumulated profits of EUR 26,550,000 which is to be entirely distributed as a dividend. The dividend per no-par-value share is EUR 1.00.

The Supervisory Board agreed with the recommendation of the Audit Committee and will thus propose to the 71st Shareholders´ Meeting to appoint Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna as the auditors for the annual financial statements of the 2015 financial year.

The Supervisory Board would like to thank the Management Board and all employees of the company for their commitment and the successfully implemented projects during the past financial year, creating the basis for the sustainably positive future development of the Lenzing Group.

Vienna, March 20, 2015

**Michael Junghans**
Chairman of the Supervisory Board

# LENZING GROUP **FIVE-YEAR OVERVIEW**

## Key earnings figures

| EUR mn | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Revenue | 1,864.2 | 1,908.9 | 2,090.4 | 2,140.0 | 1,766.3 |
| Revenue outside of Austria (consolidated)/revenue | 92.3% | 90.8% | 91.1% | 91.5% | 91.3% |
| EBITDA (earnings before interest, taxes, depreciation and amortization) | 240.3 | 225.4 | 352.4 | 480.3 | 330.6 |
| EBITDA margin | 12.9% | 11.8% | 16.9% | 22.4% | 18.7% |
| Amortization of intangible assets and depreciation of property, plant and equipment | (221.5) | (142.1) | (124.5) | (120.6) | (102.5) |
| EBIT (earnings before interest and taxes) | 21.9 | 86.4 | 231.5 | 364.0 | 231.9 |
| EBIT margin | 1.2% | 4.5% | 11.1% | 17.0% | 13.1% |
| Financial result | (23.4) | (26.7) | (12.8) | (10.9) | (12.9) |
| EBT (earnings before taxes) | 7.3 | 68.1 | 236.0 | 351.9 | 216.9 |
| Income tax expense | (21.5) | (18.1) | (55.1) | (84.6) | (40.2) |
| Profit/loss for the year | (14.2) | 50.0 | 180.9 | 267.4 | 169.9 |
| Profit/loss for the year attributable to shareholders of Lenzing AG | (13.5) | 50.1 | 175.6 | 258.7 | 159.1 |
| Earnings per share in EUR | (0.51) | 1.89 | 6.61 | 9.88 | 6.19 |

## Key cash flow figures

| EUR mn | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Gross cash flow | 230.8 | 94.6 | 248.0 | 435.3 | 282.3 |
| Gross cash flow/revenue | 12.4% | 5.0% | 11.9% | 20.3% | 16.0% |
| Cash flow from operating activities | 218.8 | 82.3 | 209.4 | 309.7 | 294.0 |
| Free cash flow | 114.8 | (163.9) | (109.1) | 116.3 | 114.4 |
| CAPEX | 104.3 | 248.7 | 319.6 | 193.4 | 230.0 |

## Key balance sheet figures

| EUR mn as at 31/12 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Total assets | 2,375.1 | 2,439.9 | 2,632.7 | 2,340.5 | 1,963.4 |
| Non-current assets/total assets | 60.8% | 61.8% | 56.2% | 56.6% | 60.9% |
| Current assets/total assets | 39.2% | 38.2% | 43.8% | 43.4% | 39.1% |
| Adjusted equity | 1,066.1 | 1,109.6 | 1,153.1 | 1,048.1 | 758.8 |
| Adjusted equity ratio in % | 44.9% | 45.5% | 43.8% | 44.8% | 38.6% |
| Liabilities (excl. post-employment benefits)/total assets | 50.8% | 51.4% | 52.4% | 51.5% | 57.2% |
| Post-employment benefits/total assets | 4.3% | 3.1% | 3.8% | 3.7% | 4.2% |
| ROCE (return on capital employed) | (0.1%) | 3.7% | 13.7% | 23.3% | 18.4% |

## Employees

| Headcount | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Employees as at 31/12 | 6,356 | 6,675 | 7,033 | 6,444 | 6,143 |

The above key financial figures are largely derived from the Lenzing Group's consolidated financial statements according to IFRS. Further details on their calculation can be found in the Glossary of the Annual Report or the consolidated financial statements of the Lenzing Group.
Rounding differences can occur when presenting rounded amounts and percentages.

To improve the informative value and clarity, the presentation of key figures was revised for this Annual Report.

Because accounting policies have changed over time, the comparability of some of the above key figures is limited.

# FINANCIAL CALENDAR 2015

| FINANCIAL CALENDAR | 2015 |
|---|---|
| Final results 2014 | Tue, 24 March |
| 71st Shareholders' Meeting (in Lenzing) | Wed, 22 April |
| Quotation ex dividend | Mo, 27 April |
| Dividend distribution | Wed, 29 April |
| Results 1st quarter | Mo, 18 May |
| Half-year results | Tue, 25 August |
| Results 3rd quarter | Thu, 12 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 AG. Such forward-looking 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 AG 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

### Adjusted equity
Equity including government grants less proportionate deferred taxes on government grants; the precise derivation can be found in Note 38 in the notes to the consolidated financial statements.

### Adjusted equity ratio
Ratio of adjusted equity to total assets as a percentage; the precise derivation can be found in Note 38 in the notes to the consolidated financial statements.

### Air-dried pulp
Pulp with 10% equilibrium moisture

### CAPEX
Capital expenditures; comprising investments in intangible assets, property, plant and equipment.

### Capital employed
Total assets less non-interest-bearing debt less cash and cash equivalents less current securities less investments accounted for using the equity method less financial assets.

### Cellulose
The raw material of pulp production. Cellulose is a component of all plants. The cellulose content of wood is about 40%.

### Co-product
By-products recovered during pulp and fiber production.

### Dissolving pulp
A special kind of pulp with special characteristics used to manufacture viscose, modal and lyocell fibers and other cellulose-based products. This grade of pulp is characterized by higher alpha cellulose content and by a high degree of purity.

### Earnings per share
Ratio of Lenzing AG shareholders' share in the profit/loss for the year to the weighted average number of shares issued as a percentage, calculated according to IFRS (IAS 33 Earnings per Share); the precise derivation can be found in Note 18 in the notes to the consolidated financial statements.

### EBIT (earnings before interest and taxes)
Earnings before interest and taxes or operating result; the precise derivation can be found in the consolidated income statement.

### EBIT margin
Ratio of EBIT to revenue as a percentage.

### EBITDA (earnings before interest, taxes, depreciation and amortization)
Operating result before depreciation and amortization or earnings before interest, tax, depreciation on property, plant and equipment and amortization of intangible assets taking into account the release of investment grants; the precise derivation can be found in the consolidated income statement.

### EBITDA margin
Ratio of EBITDA to revenue as a percentage.

### EBT (earnings before taxes)
Earnings before taxes; profit/loss for the year before income tax expense; the precise derivation can be found in the consolidated income statement.

### Equity
The equity item brings together the equity instruments according to IFRS. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting the liabilities. This relates to funds provided to the entity by the owners.

### Financial result
Total of income from investments accounted for using the equity method and income from non-current and current financial assets plus financing costs; the precise derivation can be found in the consolidated income statement.

### Free cash flow
Cash flow from operating activities less cash flow from investing activities less net cash inflow from the disposal of subsidiaries plus acquisition of financial assets less proceeds from the disposal or redemption 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 cash flow statement.

### HIGG Index
Source: http://www.apparelcoalition.org/higgindex/

### Hydrophobe
Hydrophobes are substances that do not mix with water but instead usually cause water to bead-up on surfaces.

# GLOSSARY

### IAS
Abbreviation for International Accounting Standard(s); these are internationally recognized accounting rules.

### IFRS
Abbreviation for International Financial Reporting Standard(s); these are internationally recognized accounting rules.

### Integration
All stages of fiber production are concentrated at one and the same site, from wood, the raw material, to pulp and fiber production.

### ISO 14001
An international standard for the certification of environmental management systems.

### ISO 9001
An international standard for the certification of quality management systems.

### Liabilities (excl. post-employment benefits)
Total assets less adjusted equity less post-employment benefits.

### Liquid assets
Cash and cash equivalents plus liquid securities and liquid bills of exchange; the precise derivation can be found in Note 38 in the notes to the consolidated financial statements.

### Lyocell fibers
A new type of cellulose fiber developed by Lenzing and produced in a very environmentally friendly solvent process. Lenzing markets these fibers under the brand name TENCEL®. Their properties enable new and innovative products to be developed and produced.

### Man-made cellulose fibers
A fiber industrially produced from raw materials of plant origin (e.g. wood).

### Market capitalization
Weighted average number of shares multiplied by the share price on the reference date.

### Modal
Modal is a viscose fiber refined under modified viscose production conditions and spinning conditions. It stands apart for its softness and is the preferred fiber for high-quality underwear and similar products. The fibers have improved use characteristics such as tenacity, dimensional stability, and so forth. Lenzing markets these fibers under the brand name Lenzing Modal®.

### 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; the precise derivation can be found in Note 38 in the notes to the consolidated financial statements.

### Net financial debt/EBITDA
Ratio of net financial debt to EBITDA as a percentage.

### Net gearing
Ratio of net financial debt to adjusted equity as a percentage.

### Non-interest-bearing debt
Trade payables plus puttable non-controlling interests plus other liabilities plus current tax liabilities plus deferred taxes (deferred tax liabilities) less proportionate deferred taxes on government grants and provisions excluding post-employment benefits.

### Nonwovens
Nonwoven materials, fleece. Nonwovens made from Lenzing fibers are used for sanitary, medical and cosmetics applications

### NOPAT
Net operating profit after tax; operating result (EBIT) less proportionate current income tax expense.

### OEKOM Research
oekom research AG based in Munich is one of the world's leading rating agencies in the sustainable investment segment and evaluates companies, countries and supranational institutions. Its customers include prominent financial services providers which have invested more than EUR 600 bn on the basis of its sustainability research (refer to **www.oekom-research.com/index.php?content=finanzmarkt**).

### OHSAS 18001
Occupational Health and Safety Assessment Series (OHSAS) is a certification system for management systems pertaining to work safety.
**www.ohsas-18001-occupational-health-and-safety.com**

### PEFC
The Program for the Endorsement of Forest Certification Schemes (PEFC) is an international non-profit organization for wood certification.
**www.pefc.org**

### Post-employment benefits
Provisions for pensions and severance payments.

### Profit/loss for the year
Profit/loss after taxes; net profit/loss; the precise derivation can be found in the consolidated income statement.

### ROCE (return on capital employed)
Return on capital employed; ratio of NOPAT to average capital employed (average from January 1 and December 31) as a percentage.

### Stakeholders
All internal and external persons or groups affected directly or indirectly by business activities currently or in the future.

### Stock-to-Use Ratio
Measures the relationship of supply and demand for a specified raw material, showing to the extent to which the remaining inventories of a certain raw material can fulfill demand or the entire level of consumption. The stock-to-use ratio is stated as a percentage. Source: **www.investor-verlag.de/rohstoffe/basiswissen-die-stocks-to-use-ratio-/111022351**

### Total assets
Total of non-current and current assets or total of equity and current and non-current liabilities; the precise derivation can be found in the consolidated statement of financial position.

### Viscose fibers
A regenerated cellulose fiber produced from raw materials of plant origin (e.g. wood) using the viscose process. Lenzing markets these fibers under the brand name Lenzing Viscose®.

### Wet Laid Process
A technology used in the nonwovens industry. The fibers are mixed in a suspension with water. The mixture is deposited onto a screen, forming the nonwoven material. The subsequent drying takes place by leading the wetlaid web over a heated drum or through a heating channel.

### Working capital
Inventories plus trade receivables plus other non-current and current assets less current provisions less trade payables less other non-current and current liabilities.

**COPYRIGHT AND PUBLISHED BY**
Lenzing Aktiengesellschaft
4860 Lenzing, Austria
www.lenzing.com

**EDITED BY**
Lenzing Aktiengesellschaft
Corporate Communications
Angelika Guldt
Phone: +43 (0) 76 72 701-21 27
Fax: +43 (0) 76 72 918-21 27
E-Mail: a.guldt@lenzing.com

Metrum Communications GmbH, Wien

**IDEA AND DESIGN BY**
ElectricArts GmbH

**PRINTED BY**
Gutenberg-Werbering Gesellschaft m.b.H.

**PHOTOGRAPHY BY**
ElectricArts GmbH
Elisabeth Grebe
Günther Gröger (grox press Pressefotoagentur)
Joachim Haslinger
Lenzing AG
manfredlang VISUELLE KOMMUNIKATION GMBH
Michael Haegele
Thomas Topf