Lenzing
Innovative by nature

www.lenzing.com

Stand up!

How Lenzing commits to future generations

Annual Report 2019 | **Lenzing Group**

Highlights 2019

January

- Thomas Obendrauf and Robert van de Kerkhof reappointed to the Management Board
- New test facility enables closer collaboration with partners in the nonwovens segment
- Lenzing opens new Center of Excellence in Indonesia

February

- Design center for fashion made of TENCEL™ fibers opens in Singapore
- Lenzing and BILLA offer a "green" alternative to plastic bags for fruit and vegetables

March

- Results 2018: Lenzing achieves fourth best full-year results in its history
- New appointments to the Lenzing Supervisory Board

April

- Annual General Meeting resolves an unchanged dividend and special dividend
- Lenzing presents Sustainability Report 2018

May

- Results Q1 2019: Very solid start to the financial year
- Lenzing traces its fibers with blockchain technology

June

- Trigos 2019: Lenzing awarded in the category climate protection
- Lenzing commits to carbon-neutral production
- Lenzing starts construction of the world's largest lyocell fiber plant in Thailand

July

- Textiles made of Lenzing fibers help to improve the quality of life for butterfly children
- Expansion of pulp production at the Lenzing site successfully completed

August

- Results H1 2019: Lenzing solid in a significantly more challenging market environment
- Organic Waste Systems and TÜV confirm: Lenzing fibers biodegradable in all natural environments

September

- Lenzing presents first blockchain pilot project at the Hong Kong Fashion Summit
- Innovative Lenzing customer portal receives SAP Quality Award
- "Mission humanity": Lenzing takes over patronage for social project

October

- Investment to further improve the ecological footprint of the Lenzing site
- Lenzing wins Upper Austrian State Prize for Innovation 2019
- Results Q3 2019: Lenzing solid in a very difficult market environment

November

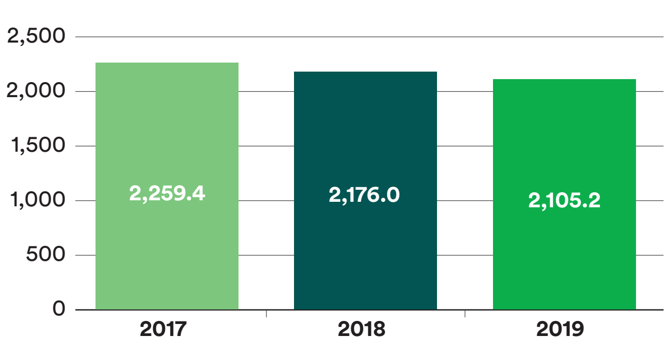
- Lenzing successfully places sustainable bonded loan of over EUR 500 mn
- Lenzing receives several prizes at the Corona awards
- #ItsInOurHands: New eco-initiative for biodegradable wipes
- Thailand: Lenzing lays the foundation stone for the world's largest lyocell plant

December

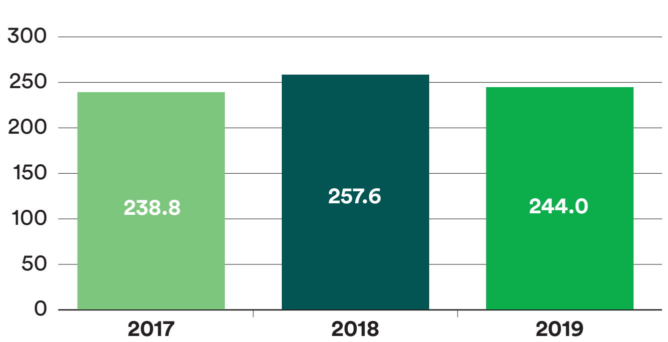
- Lenzing is the first wood-based fiber producer with approved science-based targets
- The decision has been made: Lenzing joint venture to build dissolving wood pulp plant in Brazil
- Hot Button Report: Lenzing leads Canopy ranking for sustainable wood procurement

Overview of the Lenzing Group

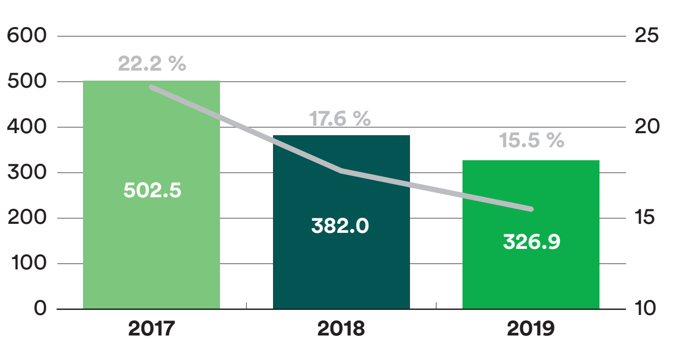
Revenue in EUR mn



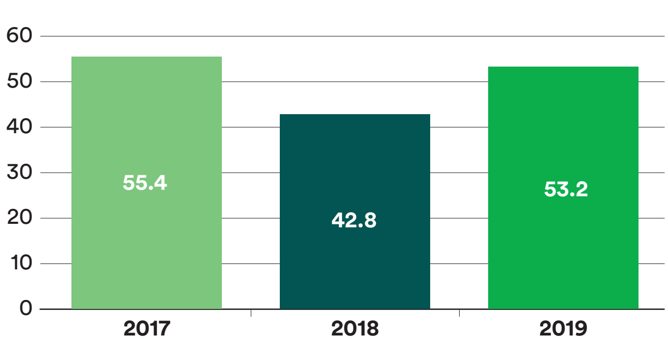
Investments (CAPEX) in EUR mn



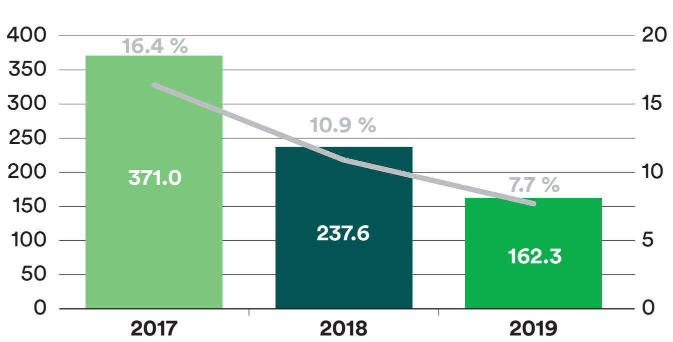
EBITDA in EUR mn **EBITDA margin** in %



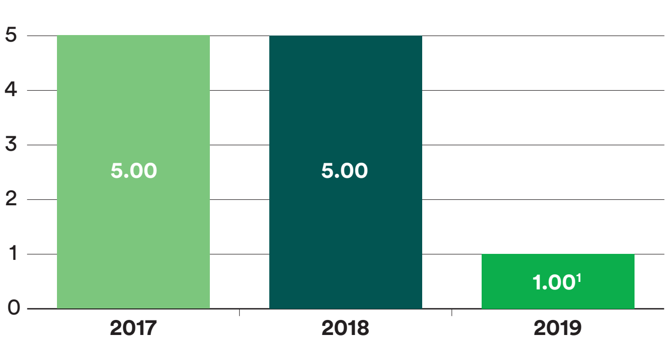
R&D Expenditures (acc. to the Frascati method) in EUR mn



EBIT in EUR mn **EBIT margin** in %



Dividend per share in EUR



The Lenzing Group stands for ecologically responsible production of specialty fibers made from the renewable raw material wood. As an innovation leader, Lenzing is a partner of global textile and nonwoven manufacturers and drives many new technological developments.

The Lenzing Group's high-quality fibers form the basis for a variety of textile applications ranging from elegant ladies clothing to versatile denims and high-performance sports clothing. Due to their consistent high quality, their biodegradability and compostability Lenzing fibers are also highly suitable for hygiene products and agricultural applications.

The business model of the Lenzing Group goes far beyond that of a traditional fiber producer. Together with its customers and partners, Lenzing develops innovative products along the value chain, creating added value for consumers. The Lenzing Group strives for the efficient utilization and processing of all raw materials and offers solutions to help redirect the textile sector towards a closed-loop economy.

1) Based on the currently proposed distribution of profits, subject to the approval at the Annual General Meeting.

Selected indicators of the Lenzing Group

Key earnings and profitability figures

EUR mn	2019	2018	Change
Revenue	2,105.2	2,176.0	(3.3) %
EBITDA (earnings before interest, tax, depreciation and amortization)	326.9	382.0	(14.4) %
EBITDA margin	15.5 %	17.6 %	
EBIT (earnings before interest and tax)	162.3	237.6	(31.7) %
EBIT margin	7.7 %	10.9 %	
EBT (earnings before tax)	163.8	199.1	(17.7) %
Net profit for the year	114.9	148.2	(22.4) %
Earnings per share in EUR	4.63	5.61	(17.6) %
ROCE (return on capital employed)	5.3 %	10.3 %	
ROE (return on equity)	10.5 %	12.9 %	
ROI (return on investment)	5.6 %	9.3 %	

Key cash flow figures

EUR mn	2019	2018	Change
Gross cash flow	294.0	304.0	(3.3) %
Cash flow from operating activities	244.6	280.0	(12.6) %
Free cash flow	0.8	23.5	(96.8) %
CAPEX	244.0	257.6	(5.3) %
Liquid assets as at 31/12	581.0	254.4	128.4 %
Unused credit facilities as at 31/12	266.6	341.6	(22.0) %

Key balance sheet figures

EUR mn as at 31/12	2019	2018	Change
Total assets	3,121.1	2,630.9	18.6 %
Adjusted equity	1,559.3	1,553.0	0.4 %
Adjusted equity ratio	50.0 %	59.0 %	
Net financial debt	400.6	219.4	82.6 %
Net financial debt/EBITDA	1.2	0.6	113.4 %
Net debt	511.4	322.8	58.4 %
Net gearing	25.7 %	14.1 %	
Trading working capital	403.5	444.4	(9.2) %
Trading working capital to annualized group revenue	20.7 %	20.6 %	

Key stock market figures

EUR	2019	2018	Change
Market capitalization in mn as at 31/12	2,198.3	2,109.4	4.2 %
Share price as at 31/12	82.80	79.45	4.2 %
Dividend per share	1.00[1]	5.00	(80.0) %

Employees

	2019	2018	Change
Number (headcount) as at 31/12	7,036	6,839	2.9 %

1) Based on the currently proposed distribution of profits, subject to the approval at the Annual General Meeting.

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

Stand up!

How Lenzing commits to future generations

Lenzing is committed to taking responsibility towards future generations by standing up against the shortcomings of our time and driving systemic change in cooperation with our partners and customers. In this Annual Report, we will also contemplate our corporate culture, our very own Lenzing spirit, which helps us achieve our ambitious goals.

In 2015, we developed a strategy that taps the company's full potential and helps us overcome the major challenges of our time. Ever since then, we have worked hard to advance this strategy, and our success proves us right. In the past years we brought two of the largest investment projects in the company's history to the final decision stage. Now we are focused on implementing these future-oriented projects in order to further strengthen our position as the leading supplier of eco-friendly specialty fibers and to make an even stronger positive contribution to the benefit of people and nature.

At Lenzing, we look beyond fibers and take responsibility for our children and grandchildren by standing up resolutely against the shortcomings of our time.

Content

Introduction by the Chief Executive Officer

> ”
>
> **We will continue to implement our strategy with a focus on profitable, organic growth in the area of specialty fibers with discipline in 2020 in order to be even more resilient to the fluctuations of the market and to strengthen our position as a leading supplier of specialty fibers.**

Ladies and Gentlemen,

Lenzing and the entire textile value chain are currently operating in a historically difficult market environment. The trade dispute between the USA and China reached a new level of escalation in 2019 with significantly negative impacts on the demand situation on the global fiber markets. At the same time, fiber supply increased as expected as major competitors in Asia expanded their capacity. As a result, price pressures rose substantially. Overall, the prices for standard viscose fell significantly below 10,000 RMB/ton, recording the lowest level since the introduction of the statistics. The prices for our specialty fibers also declined slightly due to the substantial price gap between standard and specialty fibers, but remained solid in comparison. The decline in revenues was consequently reduced considerably and we can be quite satisfied with the results of 2019. Revenue dropped by 3.3 percent to EUR 2.11 bn year-on-year. EBITDA amounted to 326,9 mn, down 14.4 percent.

At Lenzing, we look beyond fibers and take responsibility for our children and grandchildren by standing up resolutely against the shortcomings of our time. This attitude is part of our corporate values and the foundation of our actions. In 2019, we brought key projects of our sCore TEN corporate strategy to the final decision stage. This makes us very proud and reassures us in continuing along our path towards becoming a supplier of eco-friendly specialty fibers.

In order to meet the high demand for specialty fibers and further strengthen our leadership in this market, we will invest more than EUR 1 bn in new production facilities in the coming years. The first expansion phase of this ambitious growth plan was approved in the first half of 2019: the construction of a state-of-the-art lyocell plant in Prachinburi (Thailand), which is the largest of its kind with a capacity of 100,000 tons. Production is expected to start in the second half of 2021. The investment volume totals roughly EUR 400 mn.

Lenzing achieved another milestone during the reporting period on its way to strengthening its cost leadership and specialty fiber growth. At the end of the second half of the year, we announced, together with our Brazilian joint venture partner Duratex, that we will build a dissolving wood pulp plant in the State of Minas Gerais (Brazil). With a capacity of 500,000 tons, the single-line plant will be the largest and most competitive of its kind anywhere in the world, and will further enhance our independence of raw material markets. The start-up is scheduled for the first half of 2022. The expected industrial CAPEX will be approximately EUR 1.1 bn.

The strong focus on sustainability is a central element of both investment projects as well as all process and product innovations of the Lenzing Group. Sustainability is, and will continue to be, the key driver of everything we do. Lyocell fibers are considered the benchmark of eco-friendly fibers. The decision to build the two plants will also help us realize our ambitious climate goals.

In 2019, Lenzing was the world's first fiber producer to make a strategic commitment to climate-neutral production. We aim to implement this vision by 2050. Our intermediate goal for 2030 is to reduce emissions by 50 percent per ton of product compared to 2017. We will thus contribute to reducing the speed of global warming and to accomplishing the targets of the Paris climate agreement.

Lenzing will continue to implement its strategy with a focus on profitable, organic growth in the area of specialty fibers with discipline in 2020 in order to be even more resilient to the fluctuations of the market and to strengthen its position as a leading supplier of specialty fibers. The difficult market environment will continue to burden Lenzing's earnings situation and impact earnings visibility in the coming quarters due to the great uncertainty caused by the spreading of the coronavirus and the erratic developments in the trade disputes. The situation of our direct customers is very challenging and we will continue to collaborate very closely with them and provide them with the best possible support. Strategically, we are very well positioned, and therefore we are convinced that we will succeed in overcoming these challenges.

This applies all the more if we go about our work with the same commitment and the same determination as in the past years. On behalf of the Management Board of the Lenzing Group, I would like to thank all employees for their contribution. I would also like to extend special thanks to all customers, partners and shareholders for the trust they have placed in us.

Sincerely yours,

Stefan Doboczky

Report of the Supervisory Board

To the 76th Annual General Meeting

Dear Shareholders,

Lenzing AG was confronted with a very difficult market environment with intensifying trade disputes and growing geopolitical tensions in 2019. The high level of uncertainty led to a slowdown of demand on the global fiber markets, while supply was increasing at the same time. As a result, the prices for standard viscose fell to a historic low in 2019. Despite this difficult market environment, Lenzing AG recorded a solid result based on the consistent implementation of its sCore TEN strategy and targeted countermeasures.

Two central aspects of the sCore TEN strategy were advanced in the past financial year as important investment decisions were made. The first expansion phase for the construction of the world's largest lyocell plant in Thailand, with a planned capacity of 100,000 tons, was approved as part of the disciplined expansion of the share of specialty fibers. In addition, the decision to establish a 500,000 ton dissolving wood pulp plant in Brazil in cooperation with the joint venture partner Duratex was made in December 2019. The objective of this backwards integration is to strengthen the core business by expanding the company's internal production of dissolving wood pulp, and to further reduce its risk profile. In connection with the approval of these two projects, the Supervisory Board set up a Committee for Large CAPEX Projects for the first time, which subsequently focused on the support, consulting and control of the two large projects.

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

Supervisory Board meetings

The Supervisory Board of Lenzing AG met five times during the 2019 financial year, where the Management Board reported on the development of business as well as major transactions and measures. The work of the Management Board was also monitored, and the Supervisory Board offered its professional advice on major strategic issues. The meetings concentrated, above all, on the following topics: the development of the business climate, the strategic development of the Lenzing Group including an update of the sCore TEN strategy and its targets, current and planned investment projects, research and development focal points, staff-related issues and financing measures as well as the discussion and approval of the budget for the 2020 financial year.

In addition, the Supervisory Board addressed the efficiency of its own working procedures and discussed and implemented the resulting measures.

The Annual General Meeting on April 17, 2019 elected Stefan Fida and Christian Bruch to the Supervisory Board. Felix Fremerey and Helmut Bernkopf were re-elected to the Supervisory Board. Hanno M. Bästlein and Christoph Kollatz resigned from the Supervisory Board as of April 17, 2019. We commend Mr. Bästlein for accompanying the company during a phase of transition towards a specialty fiber company and would like to thank the two departing Supervisory members for their commitment and constructive work.

Heiko Arnold resigned from the Management Board at his own request with effect from December 1, 2019. We would like to thank Heiko Arnold for his commitment and achievements for the Lenzing Group. Stephan Sielaff was appointed member of the Management Board (Chief Technology Officer) with effect from March 1, 2020 for a period of three years. In order to underline importance of dissolving wood pulp for the strategic development of the company in the future, Christian Skilich was appointed member of the Management Board for this business area with effect from June 1, 2020 for a period of three years as part of an organizational change.

Committee meetings

The Remuneration Committee established by the Supervisory Board met four times during the reporting year and dealt primarily with the evaluation of performance and definition of goals for the Management Board members as well as general remuneration topics related to the Management Board. The appointment of Stephan Sielaff and Christian Skilich as well as the agreement relating to the resignation of Heiko Arnold were negotiated, approved and finalized.

Report of the Supervisory Board

The Nomination Committee met four times in 2019. The meetings focused, in particular, on personnel development measures and succession planning issues. This committee also prepared the appointment of Stephan Sielaff and Christian Skilich and made an appropriate recommendation to the full Supervisory Board.

The Strategy Committee met twice in 2019. Discussions with the Management Board covered the further development of the sCore TEN corporate strategy, the sustainability strategy and an update of the derived strategic approach and investments at these meetings.

The Audit Committee met three times in 2019. In addition to reviewing and preparing the separate and consolidated financial statements, the committee focused on monitoring the effectiveness of the internal control and risk management systems, addressing compliance-related matters, supervising the internal audit schedule and the implementation of related measures and identifying the future focal points of internal audit.

In addition, a Strategy Committee for Financing Matters was established in the 2019 financial year, which deals with decisions regarding key financing topics with respect to the simultaneous implementation of the major strategic projects initiated.

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

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

The separate financial statements of Lenzing AG, together with the management report, and the consolidated financial statements of the Lenzing Group, together with the Group management report, including the non-financial statement in accordance with Section 245a of the Austrian Commercial Code as at December 31, 2019 were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, and granted an unqualified opinion. The Corporate Governance Report was evaluated by PwC Oberösterreich Wirtschaftsprüfung und Steuerberatung GmbH, Linz, which concluded that the statement by Lenzing AG on its compliance with the Austrian Code of Corporate Governance (January 2018) provides a true representation of the actual situation.

The Audit Committee of the Supervisory Board reviewed the separate and consolidated financial statements, the management report and Group management report, the Management Board's recommendation for the use of accumulated profit and the Corporate Governance Report. The results of this review were subsequently discussed with the auditor in detail. The Audit Committee agreed with the results of the auditor's report based on its review and reported to the Supervisory Board on this matter as required. The committee also recommended that the Supervisory Board submit a proposal to the Annual General Meeting, calling for the appointment of KPMG Austria GmbH Wirtschaftsprüfungs – und Steuerberatungsgesellschaft as the auditor for the 2020 financial year.

The Supervisory Board formally approved the management report and Corporate Governance Report after its review and adopted the separate annual financial statements for 2019 in accordance with Section 96 Para. 4 of the Austrian Stock Corporation Act. Furthermore, the Supervisory Board stated its approval of the consolidated financial statements and Group management report in accordance with Sections 244 and 245a of the Austrian Commercial Code. In accordance with Section 96 Para. 1 and 2 of the Austrian Stock Corporation Act, the Supervisory Board reported that a separate non-financial report (Sustainability Report) was prepared and audited. The Supervisory Board agrees with the Management Board's proposal for the use of accumulated profit. The Supervisory Board agrees with the recommendation by the Audit Committee and will therefore submit a proposal to the 76th Annual General Meeting for the appointment of KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as the auditor of the annual financial statements for the 2020 financial year.

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

My thanks

On behalf of the Supervisory Board, I would like to thank all employees, employee representatives, the management team and the Management Board for their outstanding commitment and the successes achieved in the past financial year. Special thanks also go out to the customers, shareholders, suppliers and business partners of Lenzing for their trust.

Vienna, March 3, 2020

Peter Edelmann
Chairman of the Supervisory Board

Interview with the Management Board

Stefan Doboczky, Chief Executive Officer of the Lenzing Group, Chief Commercial Officer Robert van de Kerkhof and Chief Financial Officer Thomas Obendrauf talk about current business developments and Lenzing's contribution to overcoming the great challenges of our time.

The prices for standard viscose reached historic lows of less than 10,000 RMB/ton in 2019. Uncertainty is tangible throughout the entire value chain. How is the company dealing with this difficult market situation?

Stefan Doboczky: With its strategic orientation and its strong focus on specialty fibers, the Lenzing Group is very well positioned. This is more evident than ever in the current market environment. The price trend for wood-based specialty fibers was positive compared with the prices for standard viscose. As a result, we are significantly more resilient today than only a few years ago. However, we are not immune to global developments and it will take further efforts to become even more resistant to market fluctuations.

Robert van de Kerkhof: The more difficult demand situation for textile fibers in general and the significant price difference compared with other types of fiber put many customers and partners along the textile value chain under pressure. In the interests of customer intimacy and long-term partnerships, we will continue to support them in specific areas.

How did the environment you outlined affect the Lenzing Group's business development?

Chief Technology Officer Stephan Sielaff (as at March 1, 2020, CTO),
Chief Commercial Officer Robert van de Kerkhof (CCO),
Chief Executive Officer Stefan Doboczky (CEO) and
Chief Financial Officer Thomas Obendrauf (CFO)

Thomas Obendrauf: The historically low viscose prices had a negative impact on the earnings situation of the Lenzing Group. Thanks to the continued positive development of the specialty fiber business, which accounted for more than 50 percent of revenue in 2019, we were able to hold our ground much better than many competitors, and the decline in revenue and earnings was substantially reduced.

The Lenzing Group focused on expanding the capacities for specialty fibers and dissolving wood pulp in 2019. What progress has the company made regarding the two major projects in Thailand und Brazil?

Thomas Obendrauf: The decision to build a state-of-the-art lyocell plant with a capacity of 100,000 tons was the next logical step towards reaching our goal: we aim to achieve stable and profitable growth, and to improve the ecological footprint of the textile and nonwovens industry by expanding the production of specialty fibers. The project was approved in June. In September we selected Wood Plc. as an engineering procurement construction manager with extensive experience in the region. Finally, a foundation stone laying ceremony took place in November and construction started as planned.

Stefan Doboczky: In December we announced the construction of the world's largest dissolving wood pulp plant with a capacity of 500,000 annual tons together with Duratex, our Brazilian joint venture partner. The basic engineering and the applications for required permits proceeded according to plan and the Supervisory Boards gave the go-ahead for this project. The new plant will strengthen backwards integration and consequently also specialty fiber growth. As a result, we will be able to act even more independently and further strengthen our market position.

Lenzing announced very ambitious climate goals in 2019. A first milestone was set for the year 2030: by then, Lenzing aims to cut its own CO_2 emissions per ton of product by 50 percent. For 2050, Lenzing has announced a vision towards net-zero CO_2 emissions. The Science Based Targets initiative, the most recognized organization in the field of climate-relevant target setting, has scientifically validated Lenzing's climate targets.

Stefan Doboczky: Lenzing has therefore become the first producer of wood-based fibers whose climate goals have been scientifically recognized. Climate change is the greatest challenge of our time. With our strategic commitment to becoming climate-neutral by 2050, we help to reduce the speed of global warming and to achieve the targets of the Paris climate agreement. As a pioneer in the fiber industry and in the production industry overall, this measure is part of our responsibility towards future generations. Growth with specialty fibers will make a significant contribution to accomplishing these ambitious goals. In addition, the reduction of energy input and the conversion to renewable energies will further improve our ecological footprint.

Lenzing forges new paths in the financing of operative growth and placed an ESG-linked bonded loan of over EUR 500 mn. How do you see this step?

Thomas Obendrauf: Lenzing is one of the first companies in the world to place a bonded loan bound to its sustainability performance. In connection with our positive MSCI sustainability rating, attractive interest rates were achieved. So our bonded loan combines attractive terms and conditions with an innovative sustainability-oriented concept. Sustainability is an important success factor of our corporate strategy and we are firmly convinced that sustainability is a key element in the economic success of the Lenzing Group.

With the repositioning of its brands, a new phase of branding and brand communication started for Lenzing in 2018. How do you assess the impact of this new brand strategy after about two years of experience in the market?

Robert van de Kerkhof: Lenzing decided to implement a new brand strategy to raise the company and product profile as a sustainable innovation leader for consumers, and to support them in their purchasing decisions by creating a better understanding of the benefits of our products. Our clear brand strategy enabled us to successfully consolidate this position in 2019. The visibility of the TENCEL™ and VEOCEL™ brands as clearly distinct product brands for specialty fibers through to the consumer, as well as the positioning of the diverse applications of our products have improved significantly.

What are Lenzing's plans for 2020?

Stefan Doboczky: We will continue to work on implementing our key projects such as the construction of the lyocell and dissolving wood pulp plants in Thailand and Brazil, but also on further increasing the visibility of our brands with great discipline. The market environment will certainly be even more difficult than last year, but I am optimistic that we will succeed in overcoming these challenges based on our strategic orientation, our skills and the great motivation of all employees.

"Specialty fibers are Lenzing's great strength. Lenzing operates globally today and, with the aspiration to innovation leadership, is the best partner when it comes to high-quality specialty fibers."

The Company 2019

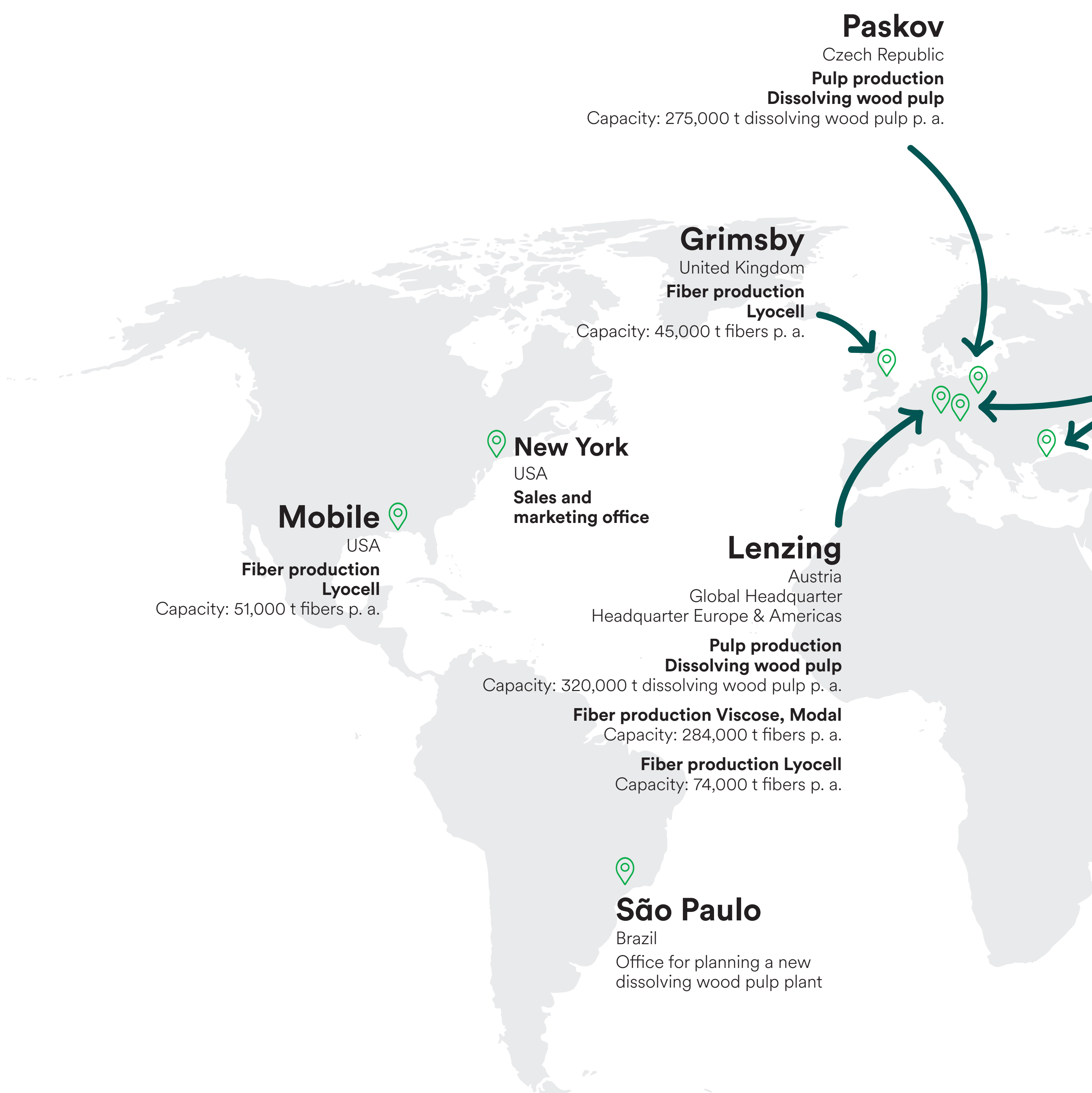
The Company 2019 12

Stand up against business as usual!

What we do.

Humanity is facing enormous challenges, which cannot be overcome by doing business as usual. At Lenzing, we have chosen to take a different path.

The locations of the Lenzing Group[1]



1) Nominal capacities as at 31 December 2019


Heiligenkreuz
Austria
Fiber production
Lyocell
Capacity: 90,000 t fibers p. a.
Nanjing
China
Fiber production
Viscose
Capacity: 178,000 t fibers p. a.
Istanbul
Turkey
Sales and marketing office
Seoul
Korea
Sales and marketing office
Hong Kong
China
Headquarter North Asia
Sales and marketing office
Shanghai
China
Sales and marketing office
Taipei
Taiwan
Sales and marketing office
Coimbatore
India
Sales and marketing office
Singapore
Headquarter AMEA
(Asia, Middle East and Africa)
Sales and marketing office
Jakarta
Indonesia
Sales and marketing office
Purwakarta
Indonesia
Fiber production
Viscose
Capacity: 323,000 t fibers p. a.
Bangkok
Thailand
Office for planning a new fiber production plant

The strategy of the Lenzing Group

The sCore TEN corporate strategy, which the Lenzing Group has consistently implemented since 2015, outlines the direction the company aims to take together with its employees, suppliers, customers, partners and investors.

The concept of sCore TEN is based on striving for innovation and above-average business success (SCORE), the strong core business with wood-based cellulosic fibers from sustainable production as the driver of the development (CORE) and the focus on growth based on specialty fibers, above all TENCEL™ lyocell fibers (TEN). The heart in the logo represents the corporate values and culture, which were developed as part of the strategy process, and stands for Lenzing as a reliable partner.

The objective was to meet most of the originally defined operational and business targets by 2020, but most of them were already achieved earlier. Lenzing therefore worked on adapting its strategy during the reporting period to reflect the most recent developments. In several areas, the market environment was significantly more challenging than only a few years ago. Growing competition in the market for standard fibers compounded the pressure on prices. Increasing protectionism and the trade dispute between the USA and China had a negative impact on demand. However, the successful development of the past years, sometimes even in a very difficult market climate, further reassured the Lenzing Group in its strategic orientation. Today, the company is substantially more resilient than only a few

Strengthen the core:
The increase in Lenzing's self-supply with pulp to 75 percent by 2024 will be secured by backward integration – by increasing the Group's own pulp production volume and/or by expanding strategic collaborations. Lenzing will also continue to focus on its core business: the sustainable production of high-quality wood-based cellulosic fibers.

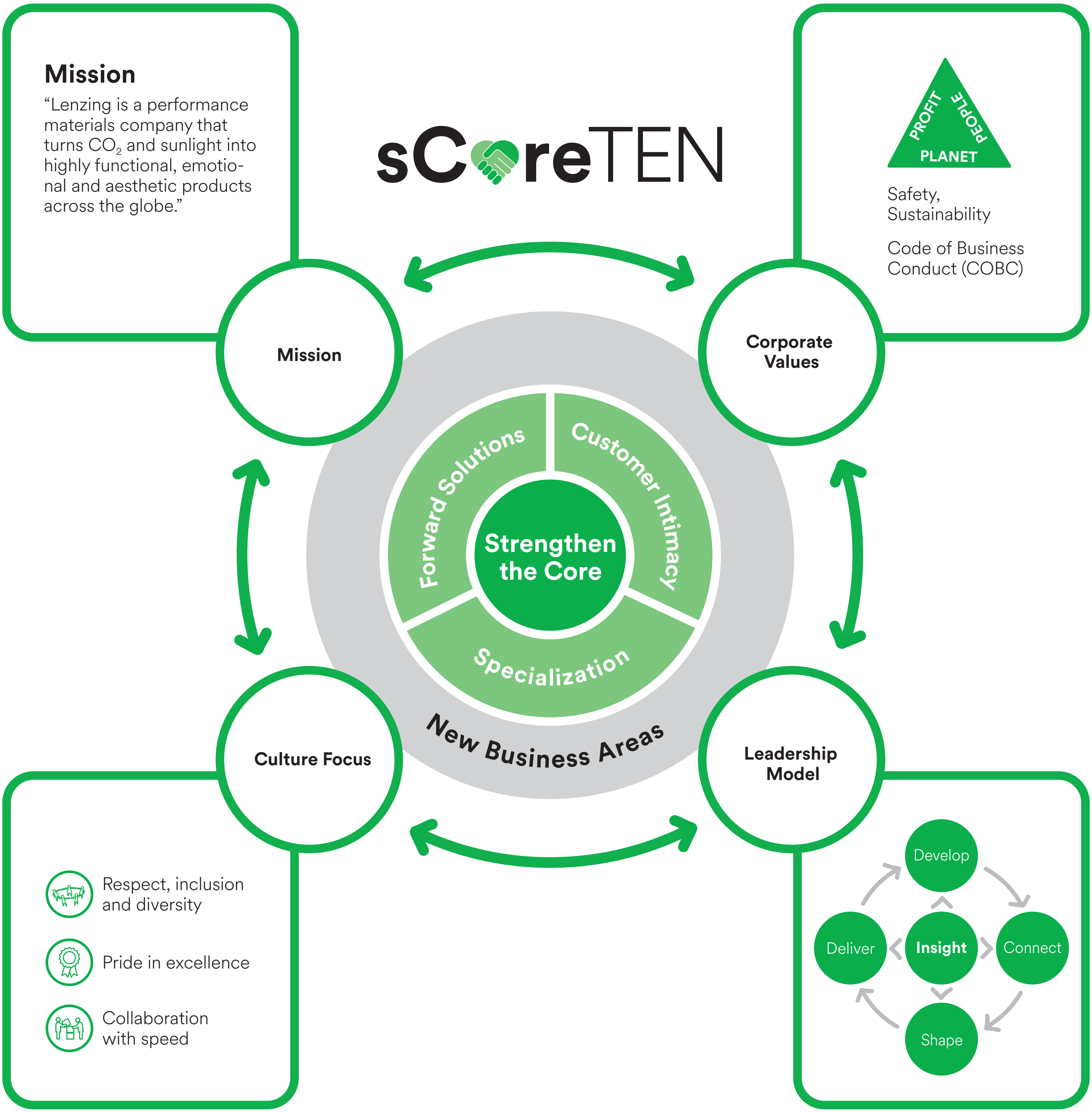
Customer intimacy:
About two thirds of Lenzing's customers are based in Asia. The company therefore increasingly offers consultancy services, product development and customer support where its customers and partners in the value chain need them most, which is locally. Lenzing has also shifted management decisions to those regions. These steps will bring the company not only closer to its customers, but also closer to their success.

Specialization:
Lenzing plans to generate more than 75 percent of its fiber revenue with eco-friendly specialty fibers such as lyocell and modal fibers by 2024. As a result, Lenzing will distinguish itself even more from the competition and will be less susceptible to cyclical fluctuation. Lenzing will continue to expand its production capacity; the focus is currently above all on the construction of the lyocell plant in Prachinburi (Thailand).

Moving forward with new technologies:
Lenzing continues to expand its research and development activities and invests above all in sustainable technology and in selected areas of the value chain. In line with the sCore TEN corporate strategy, the focus is therefore on growth based on sustainable innovations. At present, TENCEL™ Luxe and the LENZING™ Web Technology are definitely among the most exciting projects in the global market.

New business areas:
Lenzing uses its core expertise to develop new attractive business areas over the medium to long term.

Overview of the sCore TEN strategy and its five strategic directions



The strategy of the Lenzing Group

years ago, which is due above all to its specialty strategy and its strong brands based on innovation and acting sustainably.

Lenzing continues to expect strong growth in the fiber business. This expansion will be driven primarily by steady population growth and rising prosperity in the emerging markets. The per capita textile consumption will continue to rise strongly. Lenzing expects demand for wood-based cellulosic fibers to increase by 4 to 6 percent each year through to 2024, thus nearly twice as fast as the global fiber market.

The strategic cornerstones have therefore remained largely unchanged since 2015: pulp is at the core of the strategy. It is extracted from the renewable raw material wood. The pulp produced in the biorefineries of the Lenzing Group is processed into cellulosic fibers. Lenzing produces most of the pulp internally and aims to increase this share to more than 75 percent by 2024 in order to be even better protected against volatile prices in the future. The remaining amount is purchased from partners on the basis of long-term cooperation agreements. The implementation of the approved expansion project in Brazil will be a key project to achieve this strategic goal in the coming years.

Quality and sustainability will remain the foundation of success in the future. Lenzing will therefore continue to invest in the development of its biorefineries, strengthening the closed-loop model and providing full transparency along the value chain. A new focus of the sCore TEN strategy is the implementation of the climate targets, which have been scientifically confirmed by the Science Based Targets initiative. Lenzing will cut its CO_2 emissions substantially in the coming years with the goal of achieving climate-neutral production in 2050. In line with its strategic commitment for 2024, Lenzing strives to reduce emissions per ton of product by more than 40 percent compared with 2017.

Lenzing will continue to expand its partnerships and collaborations with companies along the value and further enhance customer intimacy in order to strengthen its quality position on the market. Moreover, Lenzing will continue to work hard to increase the visibility of its brands and support customers and consumers in their purchasing decisions by creating a better understand-

Corporate strategy sCore TEN updated to new target year 2024

	Targets	Targets (2024)
EBITDA	10 % p.a. until 2020 (Base: 2014)	EUR 800 mn
ROCE	>10 % until 2020	>10 %[1]
Net Debt/EBITDA	<2.5 x	<2.5 x[2]
Specialties share	50 % of total sales until 2020	>75 % of fiber sales
Dissolving wood pulp backward integration	75 %	>75 %
Decarbonisation	n.a.	>40 % specific CO_2 reduction per ton of product

1) To be adjusted for plants under construction
2) To be adjusted for JV guarantees

ing of products and their impact on the environment and society. A strong focus will also remain on brand management.

Specialty fibers are Lenzing's great strength. Lenzing operates globally today and, with the aspiration to innovation leadership, is the best partner when it comes to high-quality specialty fibers. The strategic target to generate roughly 50 percent of revenue with specialty fibers in 2020 has been met. Lenzing aims for further organic growth in this area in order to be even more resilient to volatile markets in the future. The focus of the coming year will clearly be on the construction of the new, state-of-the-art lyocell plant in Thailand, with the objective to increase the share of specialty fibers in the revenue generated by the Segment Fibers to more than 75 percent by 2024.

The positive development of the past years including the solid accounting policy helps us to implement these key projects successfully, even in a very challenging market environment. However, the company's relatively good position does not allow any complacency. Lenzing will therefore continue to focus on strict cost discipline in the years to come.

"A new focus of the sCore TEN strategy is the implementation of the climate targets, which have been scientifically confirmed by the Science Based Targets initiative. Lenzing will cut its CO_2 emissions substantially in the coming years."

Stand up against pollution

What we do.

Sustainable fibers are our passion. We aim to generate additional benefits for people and the environment in cooperation with our partners. This idea is at the heart of our sustainability strategy and the related ambitious targets.

Sustainability in the Lenzing Group

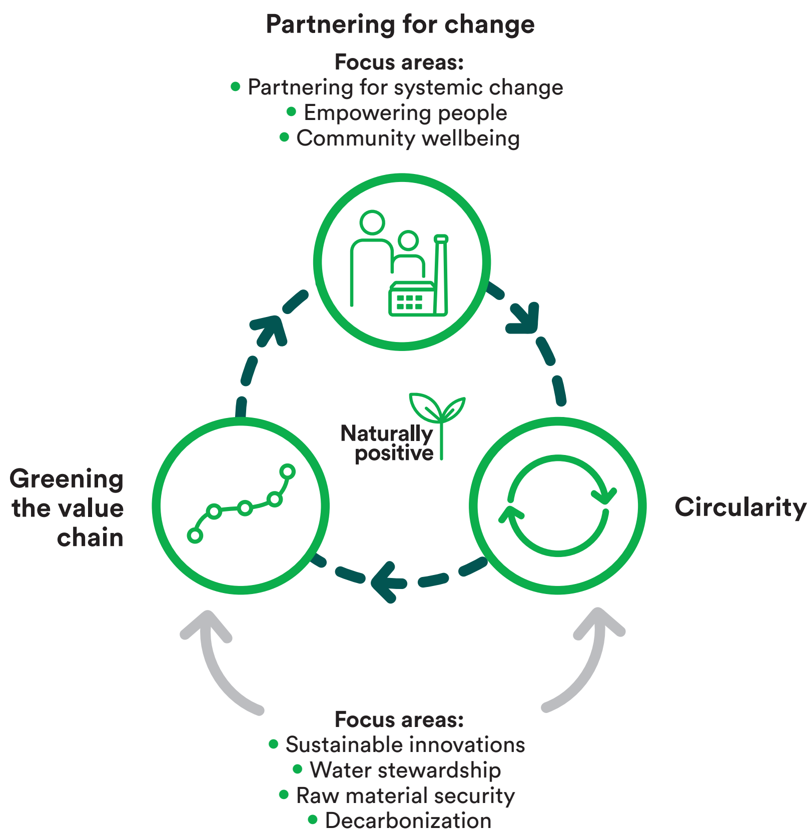
Climate change is one of the world's most urgent challenges and requires global solutions. Its impact can be felt all over the world and affects people, nature and business. The EU Commission intends to confront this challenge with a "Green Deal" for Europe. It comprises an ambitious package of measures striving to make Europe the first climate-neutral continent by 2050. As one of the sustainability pioneers in the industry, the Lenzing Group makes a significant contribution to achieving this goal.

The textile industry is the second largest polluter in the world after the oil and coal industry. According to current studies, it generates 1.2 bn tons of CO_2 per year.

"Naturally positive", the Lenzing Group's sustainability strategy, was developed based on the results of a materiality analysis conducted in 2015 and is firmly rooted in the sCore TEN strategy. It focuses on those sustainability areas where Lenzing has the greatest impact in creating a more sustainable world. "Naturally positive" is based on the "3 Ps": People – Planet – Profit. Within these three dimensions, Lenzing defined seven focus areas:

- Raw material sourcing
- Water stewardship
- Sustainable innovation
- Empowering people
- Partnerships for systemic change
- Enhancing community wellbeing
- Our contribution to climate protection

The Lenzing Group's biorefinery concept at the plants in Lenzing (Austria) and Paskov (Czech Republic) has set the standard for sustainable production for many years. In addition, Lenzing continuously improves the sustainability criteria for all its international locations. In the defined focus areas, Lenzing set specific targets in order to further promote its performance and positive impact. These targets contribute directly to several Sustainable Development Goals (SDGs) of the United Nations: reduction of sulfur emissions and wastewater emissions,



protect and preserve forests, sustainability assessment of key suppliers, increased transparency and reduction of CO_2 emissions. To find out more about the goals and implementation of the "Naturally positive" sustainability strategy, please refer to the Sustainability Report of the Lenzing Group or visit https://www.lenzing.com/sustainability.

Climate targets

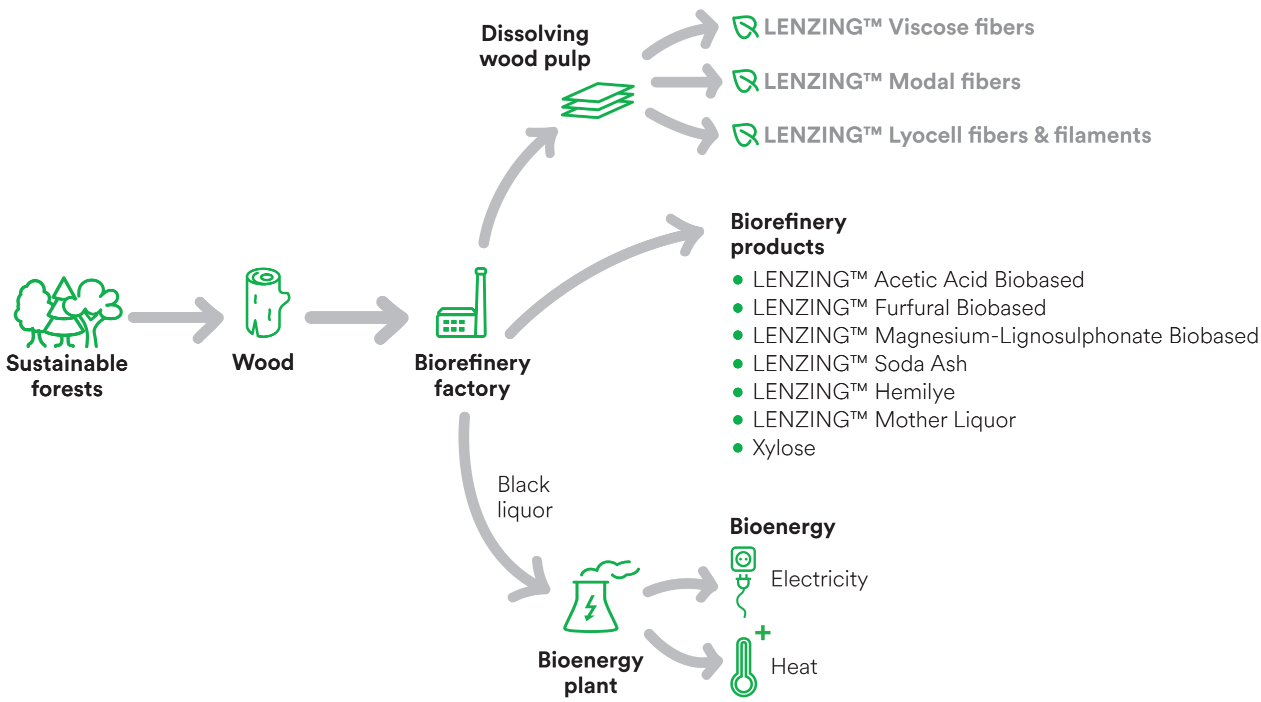
In 2018, Lenzing took the first steps for a specific CO_2 reduction target by signing the Fashion Industry Charter for Climate Action. Building on that, Lenzing defined its climate strategy in binding and measurable terms in 2019. The objective of the climate neutrality strategy is to reduce net emissions to zero by 2050. With this strategic commitment, Lenzing will help to reduce the speed of global warming and to accomplish the goals of the Paris climate agreement and of the "Green Deal" of the EU Commission. An important milestone on the path to climate neutrality is set for the year 2030. The objective is to reduce emissions per ton of product by 50 percent by then compared with a 2017 baseline.

In order to achieve this target, Lenzing will invest approximately EUR 100 mn in the conversion to renewable energies and in new technologies over the coming years. However, Lenzing will not only reduce the emissions in the existing production processes but is also putting a strong focus on low-carbon energy sources and production methods in the construction of new pulp and lyocell plants such as the approved expansion projects in Brazil and Thailand.

The Science Based Targets initiative, the most recognized organization in the field of climate-relevant target setting, has scientifically validated Lenzing's climate targets. Targets adopted by companies to reduce greenhouse gas emissions are considered science-based if they are in line with the level of decarbonization required to keep global temperature increase below 2 degrees Celsius compared to pre-industrial temperatures. Lenzing is therefore the first wood-based fiber producer worldwide which has a set science-based target.

Sustainability in the Lenzing Group

The biorefinery concept in Lenzing, Austria



Circular economy

The raw materials on Earth are limited. Therefore Lenzing focuses on a circular economy. The biorefinery concept of the Lenzing Group ensures that nearly 100 percent of the wood substance is used as a raw material for fibers, for valuable biorefinery products and as an energy supplier. In addition, Lenzing recovers chemicals in closed production loops.

In the "Hot Button Report" issued by the Canadian non-profit organization Canopy, Lenzing was once again rated number one in the world in 2019. In this widely recognized ranking, Canopy grades the world's 32 largest producers of wood-based fibers with respect to their success in achieving sustainable wood and pulp sourcing. Wood and the pulp derived from it are the most important raw materials underlying Lenzing's sustainable production of cellulosic fibers. Lenzing also put a special focus on sustainability aspects planning the new dissolving wood pulp plant in Brazil. The plantations secured in Brazil, which provide the biomass, are FSC-certified and operate in accordance with Lenzing's high standards for sourcing wood and pulp.

The development of the REFIBRA™ technology also represents an important contribution of the Lenzing Group to promoting circular economy. This technology uses cotton scraps from clothing production to create new fibers. For the first time, Lenzing introduced recycled worn

1) FSC license code: FSC-C006042

The topic of sustainability is firmly rooted in the Lenzing Group's sCore TEN strategy.

garments in the production of TENCEL™ x REFIBRA™ fibers, thus achieving another milestone in 2019 on the way to establishing this revolutionary technology on the global market.

The biological cycle is completed when the Lenzing Group's fibers biodegrade at the end of their lifecycle and are completely returned to nature. The independent research laboratory Organic Waste Systems (OWS) confirmed during the reporting year that the lyocell, modal and viscose fibers of the Lenzing Group are biodegradable in all natural and industrial environments: in soil, compost, fresh water and seawater.

Due to population growth and the growing need for textiles, textile waste is expected to increase to 148 mn tons per year by 2030.

Stand up for partnering

What we do.

We look beyond our fibers, to the needs of our customers and partners and to the needs of consumers worldwide. This is the only way we can continue to improve the quality of our products and develop new applications for our sustainably produced fibers.

The brand world of the Lenzing Group

With its focus on specialty fibers and with a view to the needs of customers and partners, Lenzing is very well positioned on the textile and nonwoven markets. “Maintaining our sustainable technological leadership, at the same time emphasizing partnerships and openness towards our stakeholders plus a stronger focus on the connection between our fibers and the people for whose benefit we develop them.” That is the message behind the brands, which have been visible on the market since 2018 and were connected even more strongly with the underlying brand promise “We look beyond fiber to the life it unlocks” in the reporting period.

Fibers of the Lenzing Group are “innovative by nature” in two ways. Wood-based cellulosic fibers made of wood are a natural product, which has been used by Lenzing for more than 80 years in innovative solutions for the production of textiles and nonwovens. The benefits of Lenzing’s cellulosic fibers are easy to see, touch and feel: soft and smooth, breathable, absorbent, gentle on the skin. All of this is reflected by the slogan “Innovative by nature”. The friendly typeface and lively green “Thread of Life” are further elements which underscore the new brand identity.

In 2019, the visibility of the new brands was again significantly improved through the opening of a design center in Singapore, another innovation center in Indonesia, the strong presence and sponsoring activities at international trade fairs and fashion shows as well as through co-branding with renowned fashion brands such as H&M, Levi’s, Zara, Allbirds, Victoria’s Secret and Esprit. The company also launched two campaigns to raise awareness of sustainable resources in the textile and nonwoven industries, proving that Lenzing looks beyond fiber: The “Make it feel right” initiative informs about sustainable fashion and reached more than 88 million customers worldwide by the end of 2019. In November 2019, Lenzing and the VEOCEL™ brand launched their “It’s in our hands” initiative, which aims to attract attention to an eco-conscious use of wet wipes.

The brands and their promise

The brand promise of the Lenzing Group (“We look beyond fiber to the life it unlocks”) requires a positioning based on strength and clarity. The historically grown approach to presenting brands, products and offers has outlived its time. The focus of the new brand architecture is on simple, clear presentation featuring plausible brand promises targeted at the customers’ immediate needs. The brand world of the Lenzing Group tells a consistent and globally communicated story as a visible and experienceable message of the der sCore TEN strategy for the customer. The focus on specialization, while at the same time strengthening Lenzing’s core competency, requires promoting the registered trademarks with conviction and vouching for them worldwide.

The architecture for the product brands is based on a simple system. With TENCEL™ and VEOCEL™, consumers will find clearly distinct product brands for the applications of specialty fibers in textiles and nonwovens. The master brand overarches the product brands. Below this top level, the previous product specifications for B2B customers are logically structured by category, e.g. technology, product type or process.

Lenzing

Innovative by nature

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

Tencel™ Feels so right

Veocel™ Purely for you

LENZING™

TENCEL™ the flagship brand for textiles

TENCEL™ is the Lenzing Group's flagship brand for textiles and stands for a variety of specialized applications. All specialty products in the textile segment (e.g. TENCEL™ Active, Denim, Footwear, Home, Intimate, Luxe) are marketed under the TENCEL™ brand. Specifications (like modal) will still be visible for B2B customers. TENCEL™ stands for the characteristics of these lyocell fibers that are most important to end customers: soft to the skin, smooth to the touch, high breathability and fashionable draping properties.

VEOCEL™ the brand for nonwovens

VEOCEL™ is the brand of choice for all producers who follow a natural approach for care and cleaning products. The focus here is also on the consumers who choose VEOCEL™ as a product for everyday use. Consumers find quality and security in cleanliness and care with VEOCEL™ Beauty, Body, Intimate and Surface. For the value chain in the nonwoven segment, this creates a variety of new possibilities for differentiation.

LENZING™ the brand for B2B applications

Lenzing fibers are also ideally suited for technical applications like tea bags, coffee pads and filter fibers or as substitutes for synthetic fibers in agriculture. For these B2B applications, which are not important for end consumers, fibers are marketed under the LENZING ™ brand. Specialty fibers which offer protection from heat are marketed under the LENZING™ for Protective Wear brand. The LENZING™ FR fibers used for this purpose provide protection from the following heat sources: fire, radiant heat, electric arcs, liquid metals and flammable liquids.

The Lenzing product portfolio

Lenzing fibers are used primarily for clothing, home textiles and hygiene products. Biological degradability is in the nature of Lenzing fibers. It closes the cycle – nature returns to nature. Lenzing fibers combine the biological properties of natural fibers with the processing advantages of mechanically produced fibers.

Lenzing lyocell fibers

The Lenzing Group is a leading global producer of lyocell fibers. The origin of all Lenzing fibers is cellulose, a component of the renewable natural raw material wood. Fiber production itself is particularly eco-friendly due to a closed cycle. More than 99 percent of the solvent used is recovered and recycled, making the Lenzing Group's lyocell fibers the fibers of the future. This closed production process was recognized by the European Union with its European Award for the Environment. Products made of lyocell fibers from Lenzing are more absorbent than cotton, softer than silk and cooler than linen. They are used in a wide range of applications that include sportswear, home textiles and mattresses as well as hygiene articles like wet wipes and baby wipes. Lenzing lyocell fibers are marketed primarily under the TENCEL™ and VEOCEL™ brands.

Lenzing modal fibers

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

Lenzing viscose fibers

Lenzing has been producing classic viscose fiber for more than 80 years. Viscose fibers from the Lenzing Group are made from the renewable raw material wood. They absorb moisture well and are pleasant to wear. Lenzing viscose fibers are premium products on the global market and are used in clothing and hygiene articles. They are a preferred fiber brand for fashionable clothing fabrics and in the hygiene sector, where purity and absorbency have top priority, they are used in products such as wipes, tampons and wound dressings.

Innovations and new products

With its innovative strength and focus on quality, Lenzing sets standards for the field of wood-based cellulosic fibers and drives new developments all over the world.

REFIBRA™ Technology

TENCEL™ x REFIBRA™ branded lyocell fibers are the first cellulosic fiber that uses wood as well as recycled materials for pulp production. These are based on both post-consumer cotton scraps and scraps from the production of cotton garments (pre-consumer cotton scraps). At present, an estimated 50 million tons of used clothing is disposed of every year. With the REFIBRA™ technology, Lenzing supports new solutions to introduce a circular economy in the fashion industry and underscores its position as a sustainable producer.

LENZING™ ECOVERO™

Lenzing's leading role in sustainability was underscored with the introduction of LENZING™ ECOVERO™, a high-performance viscose fiber with a very favorable ecological footprint. Special technology supports the identification of this fiber in the finished products. This unique system ensures the identification of LENZING™ ECOVERO™ branded fibers in the finished textiles, which guarantees transparency along the entire processing chain.

TENCEL™ Luxe

TENCEL™ Luxe filament yarn is made from dissolving wood pulp and does not have to be spun. This "silk made from wood" is produced in a closed production loop, which is characterized by low process water and energy consumption and economical use of raw materials. This benefits the environment on a sustained basis. With TENCEL™ Luxe filaments, Lenzing supports the luxury brands in the fashion industry and defines a new symbiosis between sustainability and luxury fashion.

LENZING™ Web Technology

The LENZING™ Web Technology can be used to produce novel nonwovens, which will open up new opportunities for manufacturers. The LENZING™ Web Technology is a sustainable nonwoven web formation process that starts with botanic wood pulp and produces a nonwoven fabric made of 100 percent continuous lyocell filament. The technology offers a unique self-bonding mechanism where filaments bond into a fabric during the laydown process. This self-bonding mechanism allows for a much wider variety of basis weight, surface textures, drapeability and dimensional stability than other nonwoven technologies.

Lenzing fiber applications

People can dress from head to toe in fibers made by the Lenzing Group. Whether in underwear, T-shirts or vests for everyday use or in more exquisite evening garments – Lenzing fibers are everywhere.

There are many different applications for Lenzing fibers in sports activities: in fast drying, breathable, odorless T-shirts, in fleece jackets, in trousers for climbing, running, walking and yoga as well as sports shoes.

In the bathroom, Lenzing fibers can be found in both hand and bath towels. They are soft and, at the same time, absorbent and easy-care. People use hygienic and wet wipes for skin cleansing, and Lenzing fibers can also be found in swabs and pads and in baby diapers and tampons.

The many different household applications include wipes made of Lenzing fibers, and nets made of sustainable, biodegradable Lenzing fibers for fruits and vegetables.

These biodegradable fibers are also used in agriculture, for example for growing tomatoes. In addition to the fibers themselves, acetic acid and soda as byproducts of fiber production can also be found in food retailing and, as a result, by the consumer.

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

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

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

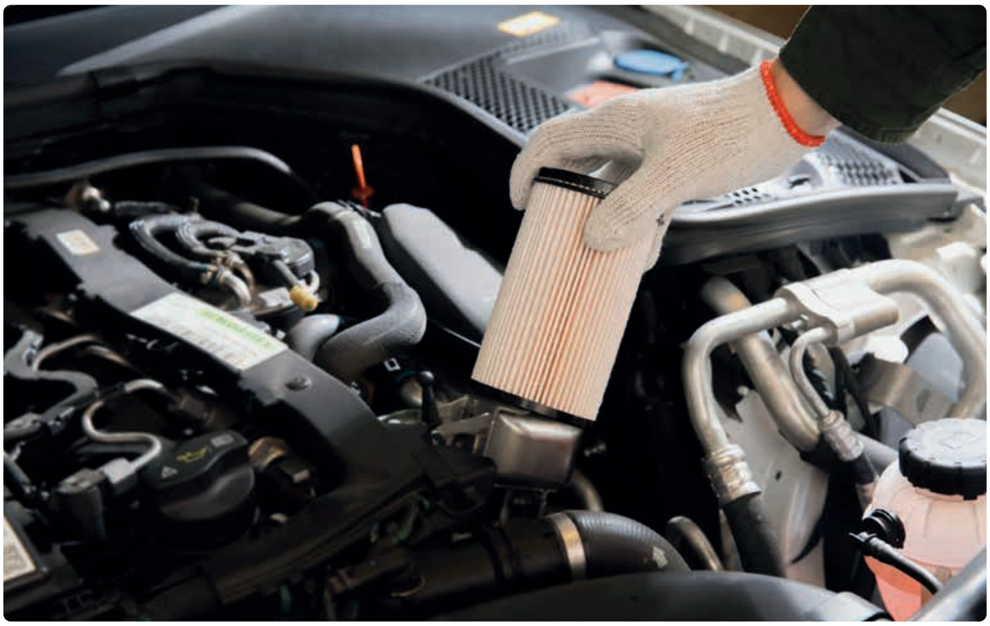
Veocel™
Purely for you

Lenzing fibers are present everywhere in our lives.

Tencel™ Feels so right

Lenzing EcoVero™

LENZING™



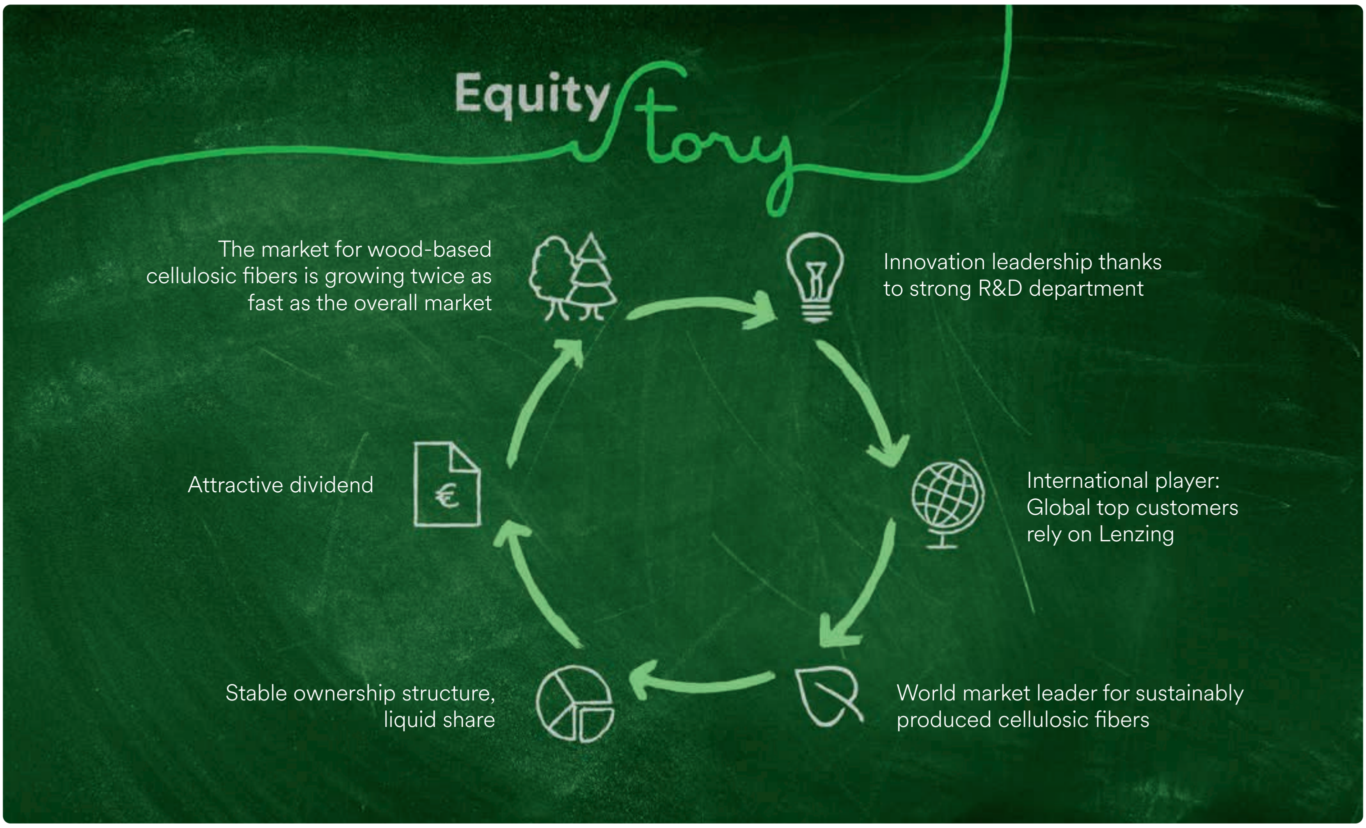
Stand up for empowerme

What we do.

Lenzing promotes the development of societies and regions in which it operates. We are proud of our contributions to economic development and social life. The change towards a more sustainable society and economy is driven by people who take responsibility, think and act positively. Therefore, we promote and empower our employees, and we motivate our partners to also commit themselves to change and sustainability.

Investor relations and communications

Investor Relations



Lenzing AG offers its shareholders a sustainable investment in a global market leader on the growth market for wood-based cellulosic fibers.

Lenzing AG offers its shareholders a sustainable investment in a global market leader in the growth market for wood-based cellulosic fibers. Lenzing expects the demand for wood-based cellulosic fibers to grow by 4 to 6 percent per year through to 2024 – in other words twice as fast as the global fiber market overall. The main growth drivers are steady population growth and increasing prosperity in the emerging markets. The Lenzing Group's customers and partners value the company's innovative strength, the quality of its products and its technological solutions. By expanding the production of specialty fibers, Lenzing strategically focuses on stable and profitable growth and on strengthening its position as a sustainability frontrunner. In addition, the new product brands ensure a clear and strong market position for Lenzing and consequently raise the profile amongst consumers.

Lenzing strives for long-term, profitable growth supported by a solid balance sheet structure and an attractive dividend policy. The guidelines for the capital allocation include expenditures for investments (CAPEX) in organic growth, a dividend typically amounting to up to 50 percent of net profit, and capital for acquisitions, share repurchases and special dividends.

The Lenzing share

The performance of the Lenzing share

Development of the Lenzing share in 2019 (in percent)

Overall, 2019 was a very positive year for the stock markets. In particular, the monetary policies adopted by the central banks provided new stimulus for the global financial markets. The Dow Jones Industrial was up 22.3 percent at the end of the year. The Japanese benchmark index Nikkei recorded gains of 18.2 percent. In the emerging markets, developments were more subdued in comparison. The ATX, the benchmark index of the Vienna Stock Exchange, developed in line with the global stock markets and closed at 3,186.9 points on December 30, 2019 (last trading day), gaining roughly 16.1 percent over the year.

The performance of the Lenzing share largely reflected the business development of the Lenzing Group during the reporting period. The Lenzing share started the 2019 trading year with a price of EUR 82.75. The annual high amounted to EUR 104. The annual low was EUR 80.75. The closing price at year-end amounted to EUR 82.8. Compared with the closing price of 2018 (EUR 79.45), the Lenzing share gained 4.22 percent in the 2019 trading year.

The Lenzing share is listed on the Prime Market of the Vienna Stock Exchange. As one of the 20 largest publicly listed companies in Austria, Lenzing is included in the benchmark index ATX (Austrian Traded Index). In addition, the Lenzing share is part of the Vienna Stock Exchange Index WBI and, since 2005, the VÖNIX Sustainability Index. In 2019 the average daily turnover of the Lenzing share fell from EUR 8.2 mn to EUR 4.4 mn. The market capitalization amounted to EUR 2.2 bn as at December 30, 2019.

Key indicators 2019

ISIN	AT 0000644505
Ticker symbol	LNZ
Initial listing	September 19, 1985
Indices	ATX, ATX Prime, VÖNIX, WBI
Number of shares	26,550,000
Share capital	EUR 27,574,071.43
Trading volume	12,119,048
Total turnover	EUR 1,099,192,767.10
Average daily turnover	EUR 4,361,876
Opening price on Jan. 02	EUR 82.75
Closing price on Dec. 31	EUR 82.80
Annual high	EUR 104.0
Annual low	EUR 80.75
Annual performance	+4.22 %
Market capitalization on Dec. 31	EUR 2,198,340,000.00

Investor relations and communications

Investor relations activities

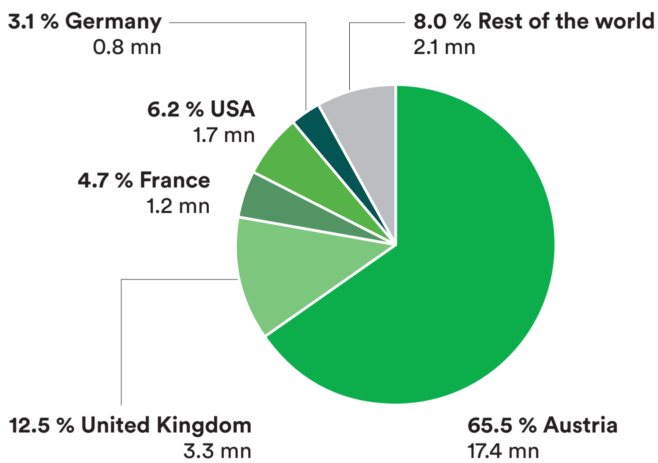
The capital market showed continued high interest in Lenzing AG in the 2019 financial year. In addition to regular disclosure (quarterly reports, ad hoc releases, corporate news), Lenzing participated in several conferences and road shows. Analysts and investors were also regularly provided with an overview of current operating and strategic developments in numerous conference calls and individual telephone conversations. The number of one-on-one contacts totaled about 900 in the 2019 financial year.

Shareholder structure

The Austrian B&C Group was the majority shareholder of Lenzing AG with an investment of 50 percent plus two shares as at December 31, 2019. Bank of Montreal, a leading Canadian bank, held 4.1 of the Lenzing shares. The free float equaled 45.9 percent at the reporting date and was distributed among Austrian and international investors. The Lenzing Group did not hold any treasury shares as at December 31, 2019.

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

Shareholdings per country in percent and millions of shares
as at December 31, 2019 (23,017,482 shares identified)



Analyst coverage

Lenzing was covered by the following seven equity research companies in 2019: Baader Helvea, Berenberg Bank, Deutsche Bank, Erste Group, Kepler Cheuvreux, Landesbank Baden-Württemberg (paid coverage), Raiffeisen Centrobank..

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

Annual General Meeting

The 75th Annual General Meeting of Lenzing AG was held on April 17, 2019 in Lenzing. All of the proposed resolutions were approved by a high majority of the votes cast. The Annual General Meeting also approved a dividend of EUR 3.00 plus a special dividend of EUR 2.00 per no-par-value share. Based on 26,550,000 shares, this corresponded to EUR 5.00 per share and a total dividend payout of EUR 132,750,000.00.

Detailed information on the Annual General Meeting, the proposed resolutions and voting results are published on the Lenzing website under: https://www.lenzing.com/investors/shareholders-meeting/2019

The Management Board and the Supervisory Board will present a proposal to the 76th Annual General Meeting on April 16, 2020 calling for the payment of a dividend of EUR 1.00 per no-par-value share.

> **Lenzing AG offers its shareholders a sustainable investment in a global market leader on the growth market for wood-based cellulosic fibers.**

Sustainable bonded loan

The Lenzing Group forged new paths in the financing of operative growth during the reporting period. As one of the first companies in the world, Lenzing successfully placed a bonded loan bound to its sustainability performance on November 27, 2019. The interest for this loan is linked to the Lenzing Group's performance in the area of sustainability and is annually reviewed and assessed by an independent sustainability agency. The MSCI agency, which undertakes the rating, recently awarded Lenzing an A rating.

The initial EUR 200 mn bond was of such interest to investors from Europe and Asia that the decision was made to increase it to EUR 500 mn. Nearly 12 percent of this (USD 65 mn) was tendered in US dollars. The average interest rate of the loan is just under one percent, through which the Lenzing Group is financed less expensively than with previous bonded loans. The fluctuation margin of the interest rate of plus/minus 2.5 base points rises or falls depending on the sustainability rating of the Lenzing Group. In the event of an improved rating, the relevant interest savings will be donated on the part of the company.

Communication

The Lenzing Group continued its comprehensive press activities in 2019 and held numerous information events in Austria and other countries to announce its business results, on the occasion of opening new innovation centers and for the presentation of new products. The Management Board presented the most important business and financial indicators for the 2018 financial year at a press conference in Vienna in March. The half-year results for 2019 were presented at a press conference in August. In addition, detailed information was provided on the decision to build a new lyocell plant in Thailand at another press conference.

Lenzing also invited customers and journalists to the opening ceremonies of the Lenzing Center of Excellence in Purwakarta and the TENCEL™ Studio in Singapore as well as the presentation of the first blockchain project in the textile industry at the Hong Kong Fashion Summit. The information campaign "It's in our hands", a new eco-initiative for biodegradable wipes, was another corporate communications highlight in 2019.

With the appointment of Filip Miermans as new head of Corporate Communications & Investor Relations in 2019, Lenzing ensures continued professional and transparent communication in the future.

The newly opened TENCEL™ Studio in Singapore is the next step in achieving the goal to bring innovations and new applications closer to the consumer.

Awards

The Lenzing Group received several awards for its achievements during the 2019 financial year, most notably in the field of sustainability. Lenzing's Sustainability Report 2018 was awarded as one of the best sustainability reports in the "Large companies" category of the Austrian Sustainability Reporting Award. Lenzing received the Trigos award in the category "Climate protection" for the use of cotton scraps as a basic material for the production of new and eco-friendly lyocell fibers. In the competition for the coveted Upper Austrian State Prize for Innovation, the Lenzing Group also came out on top. The company proved to be convincing thanks to its LENZING™ Web Technology and the standards it sets with respect to efficiency, circularity and ecological sustainability.

Lenzing's cutting-edge customer portal, which is based on SAP Commerce, received the coveted "SAP Quality Award". In addition, Lenzing was awarded the "Digital-Corona" in gold by the Federation of Austrian Industries for the introduction of the blockchain technology for fiber identification, and the "Standort-Corona" in bronze for its achievements as a leading Upper Austrian company and significant economic driver in the region.

The disciplined implementation of the sCore TEN corporate strategy and the focus on specialty fibers once again had a positive impact on the development of revenue and earnings.

Management Report 2019

General market environment

Global economy[1]

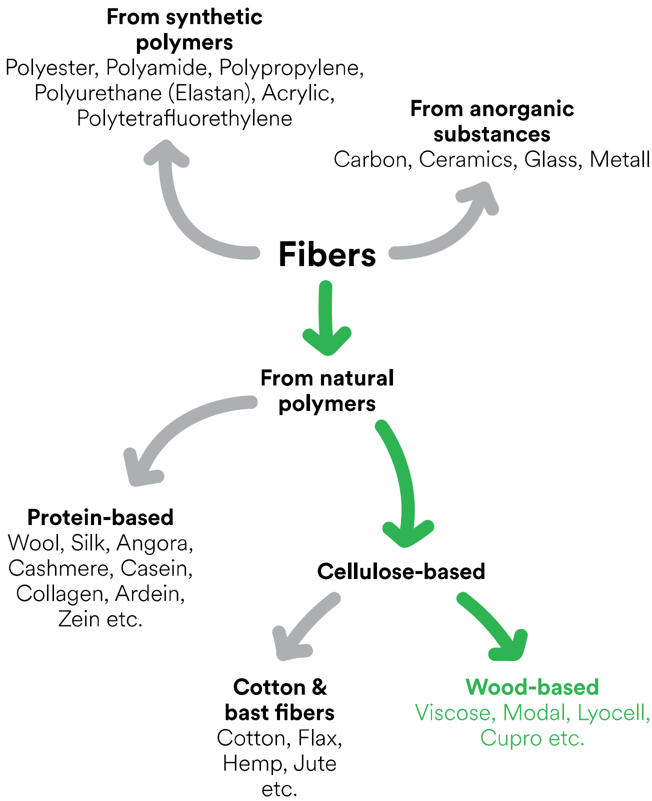
The trade dispute between the USA and China and the growing uncertainty as a result of geopolitical tensions had a severe impact on the global economy in 2019. In its most recent outlook, the International Monetary Fund (IMF) estimated growth of 2.9 percent for 2019 – compared with 3.6 percent in 2018. The revision of the projection since October 2019 (original projection for 2019: 3 percent) reflects negative economic developments and social unrest in emerging market economies.

In the industrialized economies, the growth rate slowed down to 1.7 percent in 2019 (2018: 2.2 percent), which is primarily attributable to a significant decline in the USA. The inflation rate was moderate despite continued job creation. Meanwhile, the inflation rate widely dropped in the emerging and developing economies due to subdued economic activity in 2019 and GDP growth, at 3.7 percent, was also significantly lower than in 2018 (4.5 percent).

According to the projection of the IMF, the global economy will grow by 3.3 percent in 2020 and by 3.4 percent in 2021. A continued accommodative monetary policy, a partial agreement in the trade conflict between the USA and China as well as diminishing fears that the United Kingdom will leave the EU without a deal provide for stabilization. At the same time, the IMF warned of several risks such as a new escalation of the trade dispute and geopolitical tensions, for example between the USA and Iran, and anti-government protests. Increasingly frequent extreme weather events and the coronavirus also threaten to have a strong impact on the global economy in 2020.

A noticeable recovery was recorded only towards the end of the year, after a partial agreement was reached in the trade dispute between the USA and China.

Fibers on the world market



Sources: International Cotton Advisory Committee (ICAC), IMF, Cotton Outlook, CCF Group (China Chemical Fibers and Textiles Consulting), Food and Agriculture Organization (FAO)

Global fiber market[2]

Production and demand increased slightly on the global fiber market

The decline in economic activity was also clearly tangible on the global fiber market in 2019. The production level appears to have increased only slightly in comparison to the previous year. First projections indicate an increase in global fiber supply by 0.8 percent to 106.2 mn tons. Global fiber consumption rose by 0.7 percent to 106.4 mn tons.

According to preliminary projections, cotton supply was up 0.9 percent to approximately 25.9 mn tons. Cotton consumption rose by 0.4 percent to roughly 26.2 mn tons, exceeding supply for the second consecutive year. Nevertheless, the cotton market is still characterized by high stock levels. Prices dropped significantly and were on average roughly 14 percent lower than in 2019.

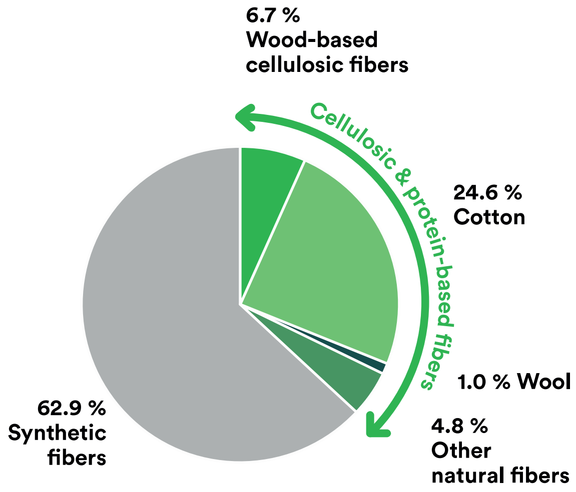
The market for wood-based cellulosic fibers continued its growth of the past years in 2019. Global production rose by roughly 5.5 percent to 7.2 mn tons, the strongest growth in five years, which was mainly attributable to higher supply from Asia. Demand for wood-based cellulosic fibers also increased by 5.5 percent year-on-year despite a high level of uncertainty in the textile value chain. The market for wood-based specialty fibers such as lyocell and modal fibers also recorded a very positive development. Due to the significant price gap compared to standard fibers, modal fibers prices started to decline in mid-2019 and lyocell fiber prices fell at the end of the reporting period.

As expected, the production volume of natural fibers recorded an increase by 0.7 percent to approximately 32 mn tons during the reporting period.

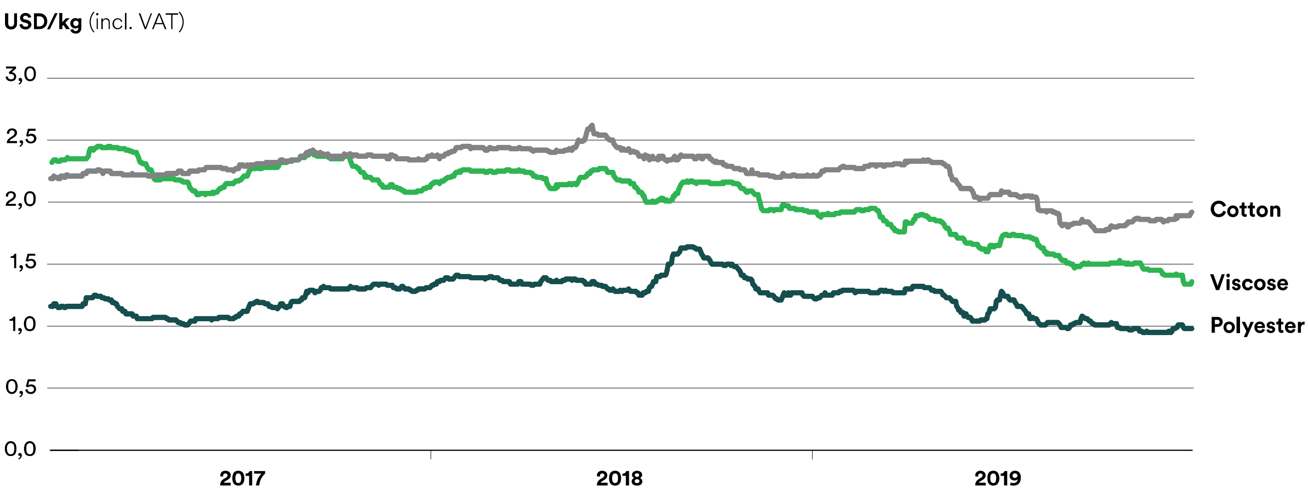
[1] Source: IMF, World Economic Outlook, January 2020
[2] All production-related figures in this section were updated from the initial estimates published in the Annual Report 2018.

Demand for synthetic polymer fibers rose only slightly by 0.4 percent to roughly 66.9 mn tons. Global polyester supply increased by 1.3 percent to roughly 56 mn tons. The decline in polyamide is largely due to uncertainties in raw material supply. The production volume of acrylic fibers decreased for the eighth consecutive year. The economic development only played a minor role in this decline, which was primarily caused by a lack of strategically important investments. Supply declined by approximately 3 percent, similar to polypropylene fibers. The lower demand for polypropylene fibers was in turn caused by falling demand in the carpet and nonwovens market. Demand for polyester and synthetic polymer fibers generally suffered from a very weak automotive market, with production declines in China, India, Germany, Mexico and Turkey, which were massive in some cases. In addition, a weaker development in the home textiles, apparel and hygiene sectors had a negative impact on global sales volume.

Global fiber consumption in 2019[1]
by type of fiber in percent (basis = 106.4 mn tons)



Staple fiber prices – Development in China[2]



Standard viscose at a historic low

The general price level for staple fibers from China recorded a strongly negative development in 2019. Polyester prices fell by an average of approximately 21 percent to 6,900 RMB/ton, while standard viscose prices even dropped by 30 percent to 9,500 RMB/ton. Cotton prices decreased by 13 percent to 13,369 RMB/ton. While the prices for polyester and standard viscose were at an all-time low at the end of the reporting period, cotton prices recovered slightly towards the end of the year.

[1] Source: ICAC, CIRFS, TFY, FEB, Lenzing Estimates

[2] Source: CCFG, Cotton Outlook

The Business Development in the Lenzing Group

The Lenzing Group recorded a solid business development again in 2019 although the more difficult demand situation for textile fibers in general and the significant drop in prices for standard viscose were clearly noticeable. The disciplined implementation of the sCore TEN corporate strategy and the focus on specialty fibers once again had a positive impact on the revenue and earnings development and the effect of the historically low prices for standard viscose was significantly reduced.

Revenue dropped by 3.3 percent from EUR 2.18 bn to EUR 2.11 bn in 2019, primarily due to lower fiber selling prices and the decline in volume of standard fibers sold. Based on a further product mix optimization and higher prices for specialty fibers, the decline in revenue was largely offset. The share of specialty fibers in revenue rose from 45.5 percent in the previous year to 51.6 percent. More favorable currency relations also had a positive impact on the development of revenue. Insurance cover is given for the production downtime in Heiligenkreuz (Austria) following a fire incident in February 2019.

The earnings development was largely influenced by the decline in revenue, but also by negative currency effects on material and personnel costs. EBITDA (earnings before interest, tax, depreciation and amortization)* fell by 14.4 percent from EUR 382 mn to EUR 326.9 mn in 2019. The EBITDA margin* declined from 17.6 percent to 15.5 percent. EBIT (earnings before interest and tax)* decreased by 31.7 percent from EUR 237.6 mn in the previous year to EUR 162.3 mn. The EBIT margin* dropped to 7.7 percent (2018: 10.9 percent).

A condensed version of the Lenzing Group's consolidated income statement for the 2019 financial year is presented below:

Condensed consolidated income statement[1] **EUR mn**

			Change	
	2019	2018	Absolute	Relative
Revenue	**2,105.2**	**2,176.0**	**(70.8)**	**(3.3) %**
Change in inventories, own work capitalized and other operating income	153.3	149.2	4.1	2.8 %
Cost of material and other purchased services	(1,257.3)	(1,297.3)	40.0	(3.1) %
Personnel expenses	(395.9)	(374.5)	(21.4)	5.7 %
Other operating expenses	(278.4)	(271.5)	(6.9)	2.6 %
EBITDA	**326.9**	**382.0**	**(55.1)**	**(14.4) %**
Amortization and depreciation	(167.0)	(147.2)	(19.7)	13.4 %
Income from the release of investment grants	2.4	2.8	(0.4)	(15.7) %
EBIT	**162.3**	**237.6**	**(75.2)**	**(31.7) %**
Financial result	1.5	(16.0)	17.5	(109.3) %
Allocation of profit or loss to and measurement result of puttable non-controlling interests	0.0	(22.4)	22.4	(100.0) %
EBT	**163.8**	**199.1**	**(35.3)**	**(17.7) %**
Income tax expense	(48.9)	(50.9)	2.0	(4.0) %
Net profit for the year	**114.9**	**148.2**	**(33.3)**	**(22.4) %**

1) The full consolidated income statement is presented as part of the condensed consolidated interim financial statements.

In the 2019 financial year, the Segment Fibers contributed EUR 2.09 bn to Group revenue. The Segment Lenzing Technik generated revenue of EUR 11.5 mn. Revenue in the Segment Other amounted to EUR 2.5 mn.

The cost of material and other purchased services declined by 3.1 percent from EUR 1.3 bn to EUR 1.26 bn during the reporting period. In relation to revenue, the cost of material and other purchased services amounted to 59.7 percent in 2019 (2018: 59.6 percent). The decrease in cost of material was due to declining market prices, in particular for pulp, caustic soda and energy.

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

Personnel expenses rose by 5.7 percent from EUR 374.5 mn to EUR 395.9 mn in the 2019 financial year, primarily due to the growth of the workforce for the major projects in Brazil and Thailand and to wage and salary increases. In relation to Group revenue, personnel expenses amounted to 18.8 percent and were higher than in the previous year (17.2 percent).

Depreciation and amortization amounted to EUR 167 mn, up 13.4 percent on the prior-year figure of EUR 147.2 mn. The increase in depreciation and amortization results from the increase in property plant and equipment due to the high investments of the past years, and from an impairment of assets of EUR 12.9 mn (2018: EUR 8.6 mn) due to the temporary construction stop in Mobile.

The financial result amounted to EUR 1.5 mn (2018 EUR minus 16 mn) and includes write-ups of the impairments of financial assets related to outstanding purchase price receivables in 2018. The write-up was recognized based on the annual credit risk assessment. Financing costs remained at the level of the previous year.

The Lenzing Group recorded EBT (earnings before tax)* of EUR 163.8 mn in 2019 (2018: EUR 199.1 mn.). Income tax expense totaled EUR 48.9 mn (2018: EUR 50.9 mn). The income tax rate therefore amounted to 29.8 percent in 2019 (2018: 25.6 percent) due to deferred tax assets on tax loss carryforwards that were not recognized. Net profit, at EUR 114.9 mn, was 22.4 percent lower than in the previous year at EUR 148.2 mn. Earnings per share declined from EUR 5.61 to EUR 4.63.

ROCE (return on capital employed)* dropped from 10.3 percent to 5.3 percent in the 2019 financial year. ROE (return on equity)* declined from 12.9 percent to 10.5 percent. The Group's ROI (return on investment)* fell from 9.3 percent to 5.6 percent.

Property, plant and equipment increased

Ongoing investment activities and the borrowing of new capital led to an increase in the Lenzing Group's total assets by 18.6 percent to EUR 3.12 bn as at December 31, 2019 (December 31, 2018: EUR 2.6 bn.). It is important to note that property, plant and equipment rose by 6.8 percent to EUR 1.6 bn as at December 31, 2019. Adjusted equity* increased by 0.4 percent from EUR 1.55 bn to EUR 1.56 bn during the reporting period. In relation to the increased total assets, the adjusted equity ratio* decreased from 59 percent to 50 percent at the end of the 2019 financial year.

Net financial debt* of the Lenzing Group, at EUR 400.6 mn at the end of 2019, exceeded the prior-year value of EUR 219.4 mn. As one of the first companies worldwide, Lenzing placed a bonded loan bound to its sustainability performance in 2019 in order finance further operational growth. The volume of the loan totals roughly EUR 500 mn, part of which will only become available to the company starting in the 2020 financial year. The ratio of net financial debt to EBITDA* equaled 1.2 at year-end 2019 compared with 0.6 at the end of 2018. Net gearing*, at 25.7 percent, was also higher than in the previous year (December 31, 2018: 14.1 percent). Trading working capital declined by 9.2 percent to EUR 403.5 mn in 2019.

The ratio of trading working capital to annualized Group revenue* rose from 20.6 percent at the end of 2018 to 20.7 percent at the end of 2019.

Gross cash flow decreased

Gross cash flow* dropped from EUR 304 mn in 2018 to EUR 293 mn in 2019, primarily due to the decline in earnings. Cash flow from operating activities* dropped by 13 percent from EUR 280 mn to EUR 243.5 mn, which is attributable to the decrease in trading working capital. CAPEX (acquisition of property plant and equipment) amounted to EUR 244 mn compared to EUR 257.6 mn in the previous year. This decline is mainly due to the completion of the expansion project in Heiligenkreuz in 2018 and the preparations for the investment decisions regarding the major projects in Brazil and Thailand, which will have a greater impact on investment volume only in the coming quarters.

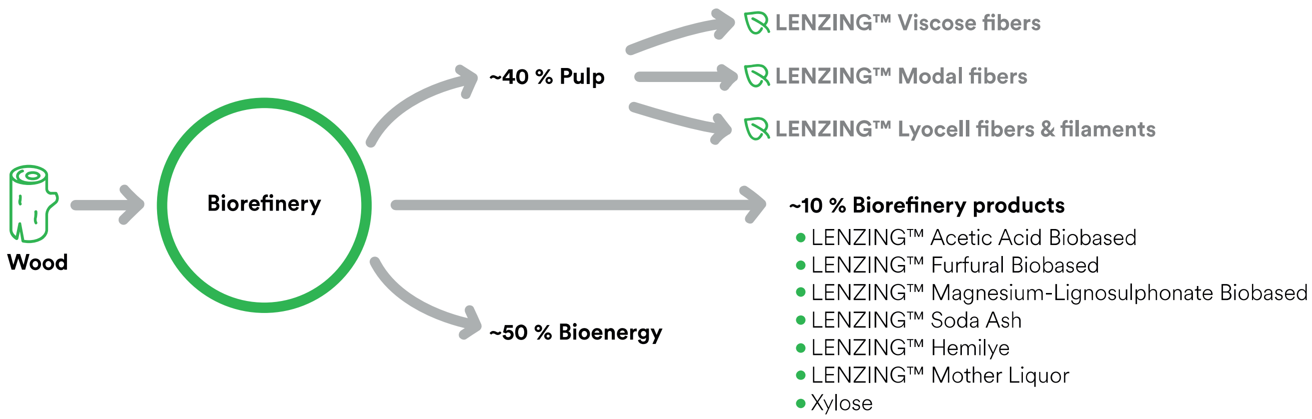
The significant increase in liquid assets held by the Lenzing Group to EUR 581 mn as at December 31, 2019 (December 31, 2018: EUR 254.4 mn.) is primarily attributable to the placement of the sustainable bonded loan. The Lenzing Group also had unused credit lines totaling EUR 266.6 mn at its disposal at year-end 2019 (December 31, 2018: EUR 341.6 mn).

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

The Development of Business in the Segments

Segment Fibers

From wood to fiber



The Segment Fibers comprises all production steps of the Lenzing Group from wood, pulp and biorefinery products to fibers. In the 2019 financial year, activities in the Segment Fibers focused on expanding the internal production of pulp and increasing the share of specialty fibers in line with the sCore TEN strategy. Overall, the general decline in demand for fibers on the global market also had a negative impact on the Lenzing Group's fiber sales volume and led to lower capacity utilization of the pulp and fiber production facilities, and to increased stock levels.

Wood

As in the previous year, the Central European wood market, which is relevant for the Lenzing Group's wood procurement, was marked by strong climatic influences again in 2019. Large quantities of damaged and calamity wood had a negative effect on the volume and price structure on the market. As the revenue situation for spruce wood was very difficult, many forestry businesses came under pressure and the economic situation caused them to increasingly harvest hardwood.

The additional supply of beech wood enabled the Lenzing Group to secure sufficient supplies for the pulp plant in Lenzing. Low prices for spruce also led to a good supply situation for pulp production at the location in Paskov (Czech Republic) in 2019.

An audit according to the forestry certification systems Forest Stewardship Council® (FSC®) and Programme for the Endorsement of Forest Certification™ (PEFC™) confirmed that in addition to compliance with the strict forestry regulations in the supplying countries, all wood used at the two locations comes from PEFC™ and FSC® certified or controlled sources[1].

Biorefinery

Pulp

The Pulp & Wood business area supplies the Lenzing Group's fiber production locations with high-quality dissolving wood pulp. It operates dissolving wood pulp production plants in Lenzing and Paskov, which cover roughly 62 percent of the Group's dissolving wood pulp requirements. The remaining part is purchased on the basis of long-term contracts.

A total of roughly 586,000 tons of dissolving wood pulp was produced at the Lenzing Group's two pulp plants in 2019, each contributing roughly the same share. The average spot market price for dissolving wood pulp in China fell by 17.8 percent to USD 765/ton in 2019 due to the difficult market situation for standard viscose and paper pulp. The sport market price for pulp amounted to USD 632/ton as at December 31, 2019.

The expansion and modernization of the pulp plant in Lenzing was completed in the third quarter of 2019. Lenzing invested EUR 60 mn and increased the production capacity for dissolving wood pulp to 320,000 tons per year. The new production capacities at the Paskov plant were gradually started up in the second half of 2019. The expansion project will be completed in the first quarter of 2020.

Increasing the internal production dissolving wood pulp is a key element in the implementation of the sCore TEN strategy. In December 2019, the Lenzing Group and Duratex, the largest producer of wood panels in the southern hemisphere, announced the construction of a dissolving wood pulp plant with a capacity of 500,000 tons in Minas Gerais (Brazil), with basic engineering progressing according to plan. The start-up is planned for the first

[1] License codes: FSC-C041246 and PEFC/06-33-92 (Lenzing), and FSC-C118737 and PEFC/08-31-0025 (Paskov)

half of 2022. Lenzing and Duratex hold 51 percent and 49, respectively, in the joint venture. The expected Industrial CAPEX will be approximately USD 1.3 bn (based on current exchange rates and customary tax refunds). The project is financed through long-term debt. The corresponding financing contracts are currently expected to be concluded in the second quarter of 2020.

In planning the new production facility, particular importance was given to sustainability aspects. The joint venture secured FSC®-certified plantations covering an area of over 44,000 hectares to provide the necessary biomass[1]. These plantations operate fully in accordance with the guidelines and high standards of the Lenzing Group for sourcing wood and pulp. The plant will have the highest productivity and energy efficiency and will feed the 40 percent of excess electricity generated on site into the public grid as “green energy”. With this project, Lenzing sets a milestone in the implementation of its carbon neutrality strategy.

Biorefinery products

In addition to pulp, the biorefineries of the Lenzing Group also produce and market biorefinery products so that another 10 percent of the valuable raw material wood is utilized. Renowned customers from the food, animal feed, pharmaceutical and chemical industries increasingly rely on biobased products from Lenzing.

Following price increases caused by scarce supply in 2018, the prices for the biorefinery products LENZING™ Acetic Acid Biobased and LENZING™ Furfural Biobased stabilized at a lower level again in 2019. The prices of LENZING™ Acetic Acid Biobased and LENZING™ Furfural Biobased declined by an average of 3 percent and 29 percent, respectively. A lifecycle analysis performed by the research institute Quantis confirmed that the carbon footprint of LENZING™ Acetic Acid Biobased is more than 85 percent lower than comparable products based on fossil resources.

Energy

Lenzing’s biorefinery concept at the locations in Lenzing and Paskov makes the Group a frontrunner for highly self-sufficient pulp and fiber production. Lenzing is developing programs aiming at enhancing energy efficiency for its other locations. The share of renewable energy sources such as biomass, water and waste in the Lenzing Group’s global energy mix amounted to 51.6 percent in 2019.

The Lenzing Group’s procurement strategy for the main cost components, electricity and natural gas, is generally based on spot market prices. In 2019, energy prices dropped significantly across the globe. The price for natural gas came under massive pressure in the first quarter as the supply of liquefied natural gas was expanded and demand declined as a result of relatively warm temperatures in the northern hemisphere. On average, the price of gas in Europe was roughly 39 percent lower than in 2018. The mild winter, combined with very good water levels in Central and Western Europe, also influenced electricity prices, which fell by an average of 13 percent. The price of coal was globally roughly 32 percent lower on average than in 2018, due to low gas prices and, in particular, to the continued increase in the price of CO_2 certificates (+56 %). The decline in oil price by 10 percent was limited in comparison.

Operations in the Lenzing Group’s energy production facilities were normal in 2019. The site in Lenzing traditionally uses renewable fuels, primarily from the biorefinery, as its most important source of energy due to the optimal structure of the facility. The use of conventional fossil fuels like oil, coal and natural gas amounted to 15.7 percent of total energy consumption in 2019 (2018: 18.3%). The continuous improvement and optimization of the plants and consumption continued during the reporting year.

The plant in Paskov was energy self-sufficient again in 2019, and fossil fuels were not required for normal operations. Surplus energy was fed into the public electricity grid. The plant in Purwakarta (Indonesia) was operated with high availability and further optimized.

As the coal price in Asia is still very high historically speaking, energy costs at the plants in Purwakarta and Nanjing (China) continued to be high in 2019. In Nanjing, the changeover in energy production from coal to natural gas, which is intended to reduce CO_2 emissions, was pushed ahead in the reporting period.

Other raw materials

After a massive increase in the price of chemicals in the past years, the situation largely eased during the reporting year due to falling energy prices and a subdued economic outlook.

Caustic soda

Caustic soda is used in the production of pulp and is also an important primary product for the production of viscose fibers as well as a co-product from chlorine production. The price of caustic soda declined in both Europe and Asia in 2019. The high prices of the past years and increased import volumes on the European market resulted in a convergence of supply and demand. While there was a relatively sharp drop in Asia, prices in Europe are still at a comparatively high level.

Sulfur

Sulfur is an important basic product for the production of carbon disulfide and sulfuric acid, which are used in the production of viscose fibers. Sulfur prices recorded a regionally varied development in 2019. In Europe, prices continued to rise compared to the previous year, while they dropped significantly in Asia due to the general economic slowdown.

[1] FSC license code: FSC-C006042

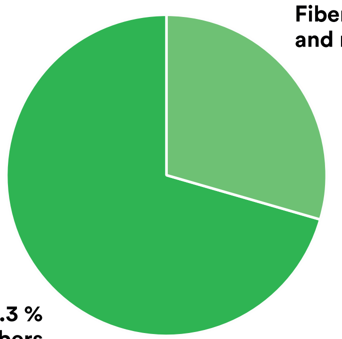
Fibers

With the repositioning of its product brands, the Lenzing Group sent a strong message to consumers in 2018. With TENCEL™ as the umbrella brand for all specialty products in the textile segment, VEOCEL™ as the umbrella brand for all specialty nonwoven products and LENZING™ for all industrial applications, the company showcases its strengths in a targeted manner. The visibility of the new brands was significantly improved through numerous appearances and sponsoring activities at trade fairs and international fashion shows as well as through co-branding agreements during the reporting year.

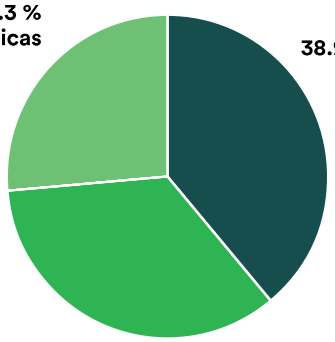
Revenue generated by the Segment Fibers decreased by 3.4 percent to EUR 2.1 bn in 2019. In the previous year, revenue amounted to EUR 2.17 bn. Segment EBITDA dropped by 15.1 percent to EUR 323.6 mn in 2019 (2018: EUR 381 mn). EBIT of the Segment Fibers fell by 32.9 percent to EUR 157.2 mn (2018: EUR 234.1 mn).

Fiber sales totaled EUR 1.8 bn, with roughly 70.3 percent attributable to textile fibers and roughly 29.7 percent to nonwoven applications and fibers for technical applications. The sales regions were North Asia, followed by AMEA (Asia, Middle East & Africa) and Europe & Americas.

Fiber revenue by segment in percent

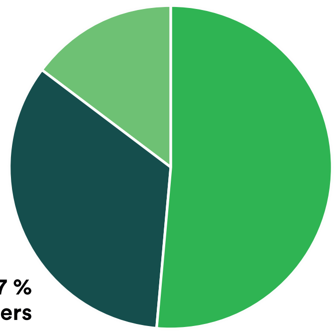


Fiber revenue by core market in percent



The total fiber sales volume declined by 2.9 percent to roughly 899,000 tons in 2019 (2018: approx. 915,000 tons). This was primarily attributable to the decrease in sales volume for standard viscose due to declining demand. In contrast, the sales volume for specialty fibers increased during the reporting year. The share of specialty fibers in Group revenue amounted to 51.6 percent, significantly exceeding the prior-year level of 45.5 percent and therefore also surpassing the target level of 50 percent for the first time. The share of standard fibers decreased from 39.7 percent to 33.7 percent. The share attributable to other business areas declined from 14.9 percent to 14.7 percent in 2019.

Lenzing Group revenue: Share of specialty fibers in percent



Textile fibers

Textile fibers are primarily marketed under the TENCEL™ and LENZING™ ECOVERO™ brands. Both TENCEL™ modal fibers and TENCEL™ lyocell fibers stand out because of their environmental compatibility and their soft and natural haptics. The demand for TENCEL™ branded fibers was largely stable in 2019.

With the introduction of LENZING™ ECOVERO™ branded fibers in 2017, Lenzing set new standards for viscose fibers regarding transparency and sustainability. Renowned clothing brands increasingly rely on sustainably produced viscose. The demand for LENZING™ ECOVERO™ branded fibers rose significantly during the reporting period.

Apparel

Apparel, the largest business area in the Lenzing Group, recorded a thoroughly positive development. TENCEL™ fibers and LENZING™ ECOVERO™ fibers are not only characterized by high functionality, but also support apparel brands in meeting important strategic goals such as improving their ecological footprint by increasingly using eco-friendly fibers.

In terms of eco-friendly fibers, TENCEL™ x REFIBRA™ fibers represent a special offer for clothing companies and consumers. Based on the REFIBRA™ technology, not only wood but also cotton scraps from textile production or worn garments can be used to produce new, high-quality TENCEL™ lyocell fibers. In 2019, Lenzing increased the share of post-consumer cotton scraps to 30 percent, thus making another important contribution to promoting the circular economy in the textile industry.

TENCEL™ Luxe filaments further established themselves as the ideal blending partner for silk in haute couture in 2019. Since their market launch in 2017, several collections with luxury brands have been developed for the retail sector.

In addition to environmental protection, transparency along the value chain is one of the great challenges the industry is faced with. Lenzing offers an innovative solution based on the blockchain technology in cooperation with the company TextileGenesis™, which enables customers and consumers to trace the production of a garment back to the raw material by simply scanning a barcode. In the third quarter of 2019, Lenzing presented its first pilot project at the Hong Kong Fashion Summit.

The visibility of the TENCEL™ brand was further increased through co-branding during the reporting period. Compared with the previous year, the number of products labeled with the TENCEL™ brand nearly doubled to 173 mn. The digital marketing concept "Where to buy" was introduced on the product website www.tencel.com in the first quarter of 2019. Based on this concept, products made from TENCEL™ fibers can be presented and linked in the online shops of more than 135 partners including brands like H&M, Levi's, Allbirds, Victoria's Secret, Esprit, Pottery Barn and Asos. The #MakeItFeelRight campaign was also launched in the first quarter of 2019. It provides information on sustainable fashion and reached more than 88 million consumers across the globe by December 31, 2019.

Home & Interiors

Sustainability is also steadily gaining importance in the Home & Interiors subsegment. TENCEL™ modal fibers and TENCEL™ lyocell fibers convince customers in this business area with strength, efficient moisture absorption and a pleasant feel on the skin. Lenzing also successfully introduced its TENCEL™ x REFIBRA™ fibers on the market for home textiles in 2019, enabling the production of bed linen and towels, among other things, from recycled cotton.

Work and protective clothing

The demand for LENZING™ FR high-performance fibers for work and protective clothing recorded a very positive development again in 2019. Increased safety requirements for work clothing in emerging countries and a stronger focus on comfort led to strong growth rates. In geographical terms, the Middle East, China and India were once again the main growth drivers.

Nonwoven fibers

Similar to the textile business, the nonwovens business was marked by intensifying competition on the market for standard viscose in 2019. Based on its close cooperation with customers and partners along the value chain and its focus on eco-friendly specialty fibers, which are marketed under the VEOCEL™ brand in the nonwovens business area, Lenzing's sales volume was stable despite the current market development.

The trend towards more sustainable solutions based on renewable resources and biodegradable materials coupled with new regulations such as the EU's single-use plastics directive to fight marine pollution support the demand for Lenzing fibers for nonwovens, in particular wet wipes. In accordance with the directive, the EU requires a marking of plastics in wet wipes.

In a move to raise awareness of the appropriate use of wet wipes, Lenzing presented the #It'sInOurHands environmental initiative in the fourth quarter of 2019. This initiative informs consumers that most wet wipes available on the market contain plastics, which are very harmful to the environment if not disposed of appropriately.

With its wood-based and biodegradable cellulosic fibers, Lenzing offers an alternative to fossil-based plastics in wet wipes which is eco-friendly while at the same time meeting all requirements regarding comfort and strength. In its effort to give customers guidance and support them even better in their purchasing decisions, Lenzing took another groundbreaking step in fighting plastics and single-use products in 2019. Stricter certification criteria will ensure in the future that products featuring the logo of the VEOCEL™ brands are free of synthetic fibers. In addition to VEOCEL™ branded cellulosic fibers, all other ingredients consequently also have to be fully biodegradable. This measure will increase transparency and support the gradual establishment of the VEOCEL™ brand as a "Label of trust".

In addition, Lenzing proactively promotes sustainable solutions in the areas of circular economy and forward integration with innovative technologies such as Eco Care, Eco Cycle and LENZING™ Web. In the first quarter of 2019, Lenzing expanded its range of solutions for the cosmetics, hygiene and medical industries and signed a cooperation agreement with Hof University of Applied Sciences (Germany) to use a new high-tech facility for nonwoven applications. Once this facility is completed in 2020, Lenzing will use it for further developments and tests.

Fibers for industrial applications

The range of applications of the Lenzing Group's wood-based cellulosic fibers is diverse and goes far beyond textiles and nonwovens. Due to their compostability, biodegradability and consistent high quality, fibers of the Lenzing Group are also highly suitable for a variety of industrial applications. Lenzing enjoys growing demand in this area and therefore focuses on sustainable solutions for packaging, shoe applications as well as automotive interior applications and lithium-ion batteries. Fibers for industrial applications recorded an increase in revenue during the reporting period.

Co-products of fiber production

The Lenzing Group produces LENZING™ sodium sulfate as a co-product at all locations where viscose or modal fibers are made. It is used in the detergent and construction industries and for the production of food and animal feed. An investment in a new bagging plant was completed in the first half of 2019, which will contribute to further improvements in earnings by reducing external storage and bagging costs.

The Lenzing Group also launched a new co-product, LENZING™ calcium sulfate, on the market in 2019, for which the first supply contracts have already been concluded.

Segment Lenzing Technik

Lenzing Technik is a supplier of filtration and separation technology units and also operates a mechanical construction unit. Both areas also serve as competence centers for the Lenzing Group's fiber technologies.

In the 2019 financial year, the Pulp Technology business area was transferred to Lenzing AG, which had an impact on the results of Lenzing Technik. Revenue generated by Lenzing Technik amounted to EUR 30.1 mn compared with EUR 42.4 mn in 2018, which corresponds to a decline by 28.8 percent. Of this total, customers outside the Lenzing Group accounted for EUR 11.5 mn (2018: EUR 9.8 mn). EBITDA amounted to EUR 3.2 mn compared with EUR 2.2 mn in 2018. The number of employees at Lenzing Technik, including apprentices, amounted to 188 at December 31, 2019 (December 31, 2018: 220).

Filtration and Separation Technology

As a pioneer in the field of solid-liquid separation, the Filtration and Separation Technology business area deals with the development and realization of solutions for customer-specific filtration applications. The innovative filtration systems enable customers to make their production processes more efficient and economical.

Mechanical Construction

The Mechanical Construction business area manufactures sophisticated and production-critical machinery and aggregate components for all plants of the Lenzing Group. It also makes a valuable contribution to the protection of intellectual property as a development partner and service provider within the Lenzing Group – from research to the finished plant and beyond.

Segment Other

Revenue in the Segment Other rose by 12.9 percent to EUR 6 mn in the 2019 financial year. Of this total, EUR 2.5 mn was attributable to customers outside the Lenzing Group (2018: EUR 2.2 mn). EBITDA increased to EUR 1.3 mn and EBIT to EUR 1.2 mn.

Investments

The Lenzing Group made a number of investments in 2019 which are crucial to the implementation of the sCore TEN strategy, including investments in increasing internal pulp production and raising the share of specialty fibers.

CAPEX (acquisition of intangible assets and property, plant and equipment) amounted to EUR 244 mn compared with EUR 257.6 mn in 2018. This decline is primarily attributable to the completion of the expansion project in Heiligenkreuz in 2018 and preparations for the investment decisions regarding the projects in Brazil and Thailand, which will have a greater impact on investment volume only in the coming quarters.

In line with the sCore TEN strategy, the Lenzing Group plans to raise the share of specialty fibers in revenue to 75 percent and increase the internal production of pulp to more than 75 percent of total requirements by 2024.

The expansion and modernization of the dissolving wood pulp plants in Lenzing and Paskov will increase pulp production capacities by roughly 35,000 tons annually. The expansion in Lenzing was successfully implemented in the second half of 2019. At roughly the same time, the new capacities at the Paskov plant were gradually started up. This process will be completed in the first quarter of 2020.

Based on the decision to build a dissolving wood pulp plant in Brazil with its partner Duratex, Lenzing will increase its self-supply by 500,000 tons annually, thus strongly enhancing backwards integration. The plant is expected to start operations in the first half of 2022. Lenzing and Duratex hold 51 percent and 49 percent, respectively, in the joint venture. Industrial CAPEX are expected to total roughly USD 1.3 bn (based on current exchange rates and customary tax refunds).

Lenzing also started the construction of a state-of-the-art lyocell production facility in Thailand in 2019. The investment for the new plant with a capacity of 100,000 tons amounts to roughly EUR 400 mn. Construction work started in the second half of 2019. Production will be launched at the end of 2021.

Another step towards the goal of increasing the share of specialty fibers was taken with the investment of up to EUR 30 mn in another pilot plant for TENCEL™ Luxe filaments in Lenzing.

In June 2019, Lenzing announced a substantial reduction of its CO_2 emissions and investments of more than EUR 100 mn in sustainable technologies and production facilities in the coming years to achieve this goal. A major part of these investments will focus on closed-loop production processes and the modernization of effluent treatment units. In addition, Lenzing invests in improving the energy mix. In Nanjing, the changeover in energy production from coal to natural gas continued in the reporting period. The decision to invest EUR 40 mn in expanding the production of the raw material sulfuric acid at the Lenzing site is another important step towards achieving the climate targets. A new air purification and sulfur recovery plant will not only optimize the company's self-sufficiency for this raw material and enhance process reliability. The investment will also contribute to improving the ecological footprint of the Lenzing site.

Research and Development

Research and development activities in the Lenzing Group are concentrated in the Global R&D Department, a corporate unit in Lenzing. This central research department is closely linked to other business areas such as business management, production, global technology, global engineering, business development, application technology, customer service sales as well as the individual regions.

At the end of 2019, 213 employees worked in Global R&D, focusing primarily on new and further developments of technologies, processes, products and applications for wood-based cellulosic fibers and for biorefineries. R&D expenditures, calculated according to the Frascati method (after the deduction of grants) amounted to EUR 53.2 mn compared with EUR 42.8 mn in 2018. The research expenditures represent a peak value in an industry comparison, both in absolute terms and in relation to revenue. The achievements of Global R&D are also reflected in 1,302 patents and patent applications (from 216 patent families), which the Group holds in 52 countries throughout the world.

Focal points 2019

In 2019 Lenzing‘s R&D activities focused on further developing the forward solutions Eco Filament for the production of TENCEL™ Luxe branded lyocell filaments and the LENZING™ Web Technology, a process that combines fiber and nonwoven production in one step. In addition to technological improvements, special importance was attached to the development of potential new applications. The second pilot production line for TENCEL™ Luxe filaments, which was put into operation at the end of 2019, gives Lenzing sufficient capacity for commercial programs and further applications development. The two technologies help improve the ecological footprint of the respective end products in line with the sCore TEN strategy.

Lenzing won the Upper Austrian State Prize for Innovation for the LENZING™ Web Technology in the category “Large Companies” in 2019, proving the future potential of the technology and the innovative power of the company.

Sustainability is a prerequisite and condition for any new development at Lenzing. The research work on the REFIBRA™ technology is crucial to increasing resource efficiency and strengthening the circular economy in the textile industry. Based on this technology, recycled materials can be partially used for the production of lyocell fibers. One of the main focus areas in this context is the expansion of the raw material base. In 2019, Lenzing was the first company in the industry to successfully use post-consumer cotton scraps for the production of Lyocell fibers.

In addition, R&D continues to drive the optimization and improvement of the production processes for pulp and the various fiber types. The R&D focal points in this area are on improving the utilization of the raw material wood in the biorefineries of the Lenzing Group and on further closing the loops. In terms of fiber development, Global R&D also supports the further development of production technologies and capacity expansions for the production of lyocell, modal and viscose fibers. Particular importance was attached to optimizing energy efficiency at the new production facilities in Thailand and Brazil during the reporting period with a view to Lenzing’s ambitious decarbonization targets.

Innovation centers

There is also an extensive exchange with the application and innovation centers in Hong Kong and Purwakarta, where new applications for fibers of the Lenzing Group are developed in cooperation with customers. Based on the joint development activities, Lenzing intensified the global collaboration with partners along the value chain. The central hub for fashion designers at the TENCEL™ Studio in Singapore, which was opened in the first quarter of 2019, completes Lenzing’s chain of innovation and application centers in Asia to drive developments from fiber to yarn to fabric and ultimately to designer clothing.

In the first quarter of 2019, Lenzing signed a cooperation agreement with Hof University of Applied Sciences (Germany) for the utilization of a new high-tech test facility for nonwoven applications. Lenzing will use this facility for developments and tests when it is completed in 2020 and expand its offering of solutions for the cosmetics, hygiene and medical industries.

Non-financial statement

Environmental protection, sustainable business development and responsibility for people are part of Lenzing's strategic values. Sustainability is therefore firmly established in the sCore TEN strategy. Current information on the topic of sustainability is provided in the Sustainability Report of the Lenzing Group, which also represents the consolidated non-financial report in accordance with Section 267a of the Austrian Commercial Code.

Risk Report

Current risk environment

A detailed analysis of the developments in the global fiber market during the reporting year and the related risks for the Lenzing Group is provided in the section “General Market Environment”.

The economic environment is characterized by risks which could significantly slow down economic growth if they were to occur. Such risks include another escalation in the trade dispute between the USA and China, a greater-than-expected economic downturn in the largest economies and turbulence on the financial markets of some emerging and developing countries.

The global fiber market came under further pressure in 2019 due to capacity expansions on the Asian market, in particular in standard fibers. The general decline in demand for textile fibers, coupled with the significant price gap compared to other fiber types, also had an impact on the specialty fiber segment. The high price pressure is expected to persist in 2020. The sCore TEN strategy aims to mitigate the impact of these developments.

Based on the steady expansion of the existing pulp capacity and sufficient availability on the global market, the Lenzing Group’s pulp supplies are considered secured for 2020. Together with Duratex, Lenzing will build a dissolving wood pulp plant with a capacity of 500,000 tons in Brazil in the coming years. The new production facility will strengthen the Lenzing Group’s backwards integration and cost position as well as its specialty fiber growth.

The main raw material prices, in particular for caustic soda and carbon disulfide, showed a downward trend in the past months.

On the currency side, the US dollar fluctuated in a range of 6 percent against the euro in 2019. The Chinese yuan also remained largely stable. A devaluation of the two currencies would have a negative effect on the Lenzing Group’s open currency volume. Liquidity risk is expected to be low in 2020 due to the very stable financial structure.

Apart from a fire at the Heiligenkreuz plant in February 2019, which led to a production downtime of several weeks, there were no other significant incidents involving operating, environmental or product liability risk with a high damage potential. The damage incident in Heiligenkreuz was insured and was settled completely with the insurance company at the end of the reporting year.

Lenzing takes account of long-term risks such gas global warming and an increasing shortage of resources in its strategic orientation. In 2019 Lenzing was the first fiber producer to commit to net zero CO_2 emissions by 2050.

Risk management

The main purpose of risk management in the Lenzing Group is to protect and strengthen the company by correctly and transparently assessing the financial, operational and strategic risks. The Management Board of the Lenzing Group, together with the heads of the reporting departments, carries out extensive coordinating and controlling operations within the framework of a comprehensive integrated internal control system that covers all locations. The timely identification, evaluation and reaction to strategic and operational risks are essential components of these management activities and make a significant value contribution to the company. This approach is based on a standardized, group-wide monthly reporting system and the ongoing monitoring of strategic and operational plans.

Lenzing has implemented a corporate risk management system for the central coordination and monitoring of risk management processes throughout the Group. This system identifies and analyzes the main risks, together with input from the operating units, and communicates the results to the Management Board and top management. Risk management also includes the proactive analysis of potential events or near-misses. Further tasks include actively controlling risks and evaluating appropriate measures with the affected business areas. Starting in 2020, the identification and assessment of future risks related to climate change and the corresponding mitigation measures will be considered in the risk management process in order to subsequently meet the requirements of the TCFD (Task Force on Climate-related Financial Disclosures) regarding climate-related risks.

Risk management strategy

Lenzing pursues a multi-step approach to risk management:

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

The Central Risk Management Department carries out semiannual risk assessments at all production locations and functional units with a time frame of five years. The major risks are identified and evaluated in accordance with the international COSO® standards. Only the risks not reported on the statement of financial position or the income statement are presented, whereby the financial effects of a possible damage event on Group EBITDA and liquid funds are included. The risks are simulated against the EBITDA plan and a range of possible budget variances is developed. Lenzing uses a simulation software which also calculates other KPIs such as value at risk, risk-adjusted ROCE and a sensitivity analysis.

[1] Committee of Sponsoring Organizations of the Treadway Commission

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

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

Risk monitoring/control
The effectiveness of the risk management system used by the Lenzing Group was evaluated by KPMG Austria GmbH in accordance with Rule 83 of the Austrian Corporate Governance Code as part of a special audit in the reporting year.

Reporting
The main risks are presented in detail in a report and discussed with the Management Board and the Audit Committee.

Market environment risks

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

The Lenzing Group counteracts this risk by steadily increasing the share of specialty fibers in its global product portfolio and a consistent sustainability and innovation strategy. The goal is to raise the share of specialty fibers to 50 percent by 2020 and to further expand Lenzing's role as a leading company in sustainability in the fiber business. High quality standards combined with added-value services in the standard fiber business are also designed to safeguard Lenzing's leading market position.

The Lenzing Group relies on a strong international market presence, especially in Asia. This market presence is strengthened by an excellent regional customer service and support network as well as high customer-oriented product diversification. In the reporting year, Lenzing partnered with the Textile and Fashion Federation Singapore and opened a center for fashion designers in order to make the TENCEL™ brand more accessible to consumers.

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

Innovation and competition risk
The Lenzing Group is exposed to the risk of losing its position on the fiber market due to increased competition or new technologies developed by competitors. The Lenzing Group could lose its market position, above all, if it were no longer able to offer its products at competitive prices, if its products did not comply with customer specifications or quality standards or if its customer service did not meet customer expectations. Lenzing counteracts this risk with research and development activities that exceed the average for the industry and by a high level of product innovation and steady cost optimization. The Lenzing Group – similar to other producers – is exposed to the risk that acceptable or even superior alternative products may become available and at more favorable prices than wood-based cellulosic fibers.

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

In response to the far-reaching implications of global warming for society and the ecosystems, governments or other stakeholders are likely to introduce stricter laws and regulations. These could include the reduction of CO_2 allowances issued in the EU or new taxes on CO_2 emissions. Other regions and countries are currently also planning to carry out similar steps. The implementation of measures reflecting regional differences could have a negative impact on the business success of the Lenzing Group. The Lenzing Group implements a number of measures to reduce climate-related transition risks and to further increase resilience in this area.

Brand risk
Lack of or incomplete protection of intellectual property and brands for products made by Lenzing represents a risk. The Lenzing Group controls this risk through departments for brand and intellectual property protection. Moreover, the new branding strategy and integrated processes are also designed to counter this risk.

Climate change and marine pollution

The awareness of problems related to climate change such as rising sea levels and the increasing frequency and severity of natural disasters is growing among people as well as throughout the fiber industry. The pollution of the oceans with plastic waste and microplastics also represents a growing global risk. Lenzing counters this development with the production of biodegradable fibers.

The Lenzing Group has recognized the far-reaching effects of climate change on society and the ecosystems and offers a sustainable alternative with its innovative and biodegradable products. Lenzing continuously works on setting clear sustainability goals and looks for ways to increase its energy efficiency and for opportunities to use renewable energy sources or sources with lower CO_2 emissions.

Operational risks

Procurement risk (incl. pulp supply)

The Lenzing Group purchases large volumes of raw materials (wood, pulp, chemicals) and energy for the manufacture of its cellulosic fibers. Fiber production and the related margins are exposed to risks arising from the availability and prices of these raw materials, which can fluctuate to the disadvantage of the Lenzing Group and may increase as a result of climate change. These risks are countered through the careful selection of suppliers based on price, reliability and quality criteria, EcoVadis-based sustainability assessments as well as the creation of long-standing, stable supplier-customer partnerships, in some cases with multi-year supply agreements. In addition, all suppliers must comply with Lenzing's Global Supplier Code of Conduct. Nevertheless, there is a risk of violations of the Code which may have a negative impact on the Lenzing Group and its stakeholders along the value chain. Supply chain risks may also result from disruptions caused by natural disasters.

Lenzing has also entered into long-term contractual relationships with several raw material suppliers and service partners. These agreements require Lenzing to purchase specified quantities of raw materials at standardized terms and conditions, which may also include price adjustment clauses. Lenzing may therefore not be able to adjust prices, purchase volumes or other contract conditions over the short term in order to react to changes on its markets.

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

Operating risks, environmental risks and risks relating to climate change

The production of wood-based cellulosic fibers involves complex chemical and physical processes which cause certain environmental risks. These risks are effectively controlled through proactive and sustainable environmental management efforts, closed production cycles and the continuous monitoring of emissions based on state-of-the-art production technologies. Lenzing continuously works on increasing safety and environmental standards through voluntary references such as the EU Ecolabel. Since the Lenzing Group has operated production facilities at several locations for decades, risks arising from environmental damage in earlier periods cannot be completely excluded.

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

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

Product liability risk

The Lenzing Group markets and sells its products and services to customers throughout the world. These business activities can result in damage to customers or along the value chain through the delivery of a defective product by Lenzing or one of its subsidiaries. Moreover, product safety can be jeopardized by pollution, which may cause problems in the value chain, for example potential health implications for employees or customers. Lenzing is also subject to the prevailing local laws in the countries where its products are delivered. Especially in the USA the potential implications are considered to be severe. This risk is countered by a special department which focuses exclusively on customers' problems in processing Lenzing products and on dealing with complaints. Appropriate precautions in the production process and regular quality inspections have been implemented. Third party damages caused by Lenzing are covered by a global liability insurance program.

Financial risks

For a detailed description of financial risks refer to notes 35 to 38 of the Notes to the Consolidated Financial Statements

Tax risk

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

Compliance

Increasingly strict international codes of conduct and legal regulations are creating additional demands on Lenzing for compliance and monitoring. Insufficient controls in business processes or a lack of adequate documentation could result in violations of relevant statutory provisions or pose a significant risk to Lenzing's reputation and business success as a result of compliance violations. Lenzing addresses this risk, among other things, by continuously developing its group-wide compliance organization, the corporate code of conduct, an anti-bribery and corruption directive, and an antitrust directive. Further information on compliance is provided in the Corporate Governance Report.

Personnel risks

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

At the production facilities, employees of the Lenzing Group as well as for workers and employees of third companies are exposed to a risk of injury. Lenzing's "Heartbeat for Health & Safety" program accounts for this risk and includes a strategic approach to risk reduction, precautionary measures and extensive training. More information on this topic is provided in the section "Safety, Health and Environment". In addition, risks related to compliance with legal requirements arise when commissioning third companies, in particular in connection with the two major projects in Thailand and Brazil.

Risks related to major projects

The Lenzing Group continuously carries out numerous capacity expansion projects. These projects include the new dissolving wood pulp plant in Brazil, whose construction was approved in December 2019, and the additional lyocell plant in Thailand, which is currently under construction. These types of major projects carry an inherent risk of cost and schedule overruns. Lenzing counters these risks with strict planning and project management, continuous cost controls as well as insurance solutions and risk transfers. In addition to the ongoing risk management, Monte Carlo simulations are used for projects of this size to depict the sensitivity of the key financial indicators.

Risks from an external perspective and the perspective of other stakeholders

As a globally operating company, the Lenzing Group is aware of its social responsibility. The risks described in the risk report refer primarily to the effect on the assets and results of the Lenzing Group. As one of the sustainability leaders in the industry, the Lenzing Group seeks a balance between the needs of society, the environment and the economy. The company takes on this responsibility, particularly with respect to potential effects of its operations on neighbors of the production sites and vis-à-vis society as a whole. Active stakeholder work to mitigate risks (partnership for systemic change) and to create additional benefits for people and the environment is a clear goal of the Lenzing Group's innovation and operating activities. They include joint activities with NGOs such as Canopy. In line with the sustainability strategy, a project to promote sustainable forestry and improve local living conditions was initiated in Albania during the reporting period. In cooperation with its partners, the Lenzing Group is working on understanding the risks for stakeholders and on finding solutions to mitigate these risks. This work is based on open communication and transparency as well as continuous improvement of technologies and sustainable practices.

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

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

The Lenzing Group's organizational structure and processes form the main basis for the control environment and the internal control system. The organizational structure includes the assignment of specific authority and responsibilities to the various management and hierarchy levels at the Austrian sites and in all international subsidiaries. Key group functions are centralized in corporate centers which reflect Lenzing's global market presence as well as its decentralized business and site structure. The respective management is responsible for coordinating and monitoring business operations at the national level.

Lenzing's process organization is characterized by a well-developed and comprehensive set of guidelines which provide an effective foundation for a strong control environment and control system. Important group-wide approval processes and responsibilities are defined in the Lenzing Group Mandates. The management of each business area or department is responsible for monitoring compliance with the respective regulations and controls.

Financial Reporting

The Global Accounting & Tax Management Department has central responsibility for financial reporting, the internal control system related to accounting, and tax issues in the Lenzing Group.

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

The subsidiaries included in the consolidated financial statements prepare financial statements in accordance with both local laws and IFRS standards at the company level in a timely manner. They are responsible for the decentralized implementation of existing rules and are supported and monitored in these activities by the Global Accounting & Tax Management Department. The Audit Committee of the Supervisory Board is integrated in the control system related to accounting. In addition, the annual financial statements are audited by external certified public accountants and the half-year financial statements are reviewed on a voluntary basis.

The Global Treasury Department, and above all the payments unit, is classified as a highly sensitive area because of its direct access to the Group's assets. The accompanying increased need for security is reflected in comprehensive regulations and instructions for all relevant processes. These clear guidelines require the strict application of the four-eyes principle for the settlement of transactions as well as regular reporting.

The Internal Audit Department is responsible for monitoring the application of and compliance with controls in business operations.

Compliance with legal regulations and internal guidelines

The Legal, Intellectual Property & Compliance Department of the Lenzing Group is responsible for legal management. This centralized function handles legal matters in the Lenzing Group, in particular issues which do not involve standard business processes.

This department is also responsible for the Compliance Management System (CMS). Together with the Management Board, it oversees group-wide compliance with legal regulations and internal guidelines as well as the prevention of legal violations and improper behavior. The Legal, Intellectual Property & Compliance Department reports directly to the Chief Executive Officer of the Lenzing Group. The CMS is responsible for the following: the identification of compliance-relevant risks, the analysis of deviations from the norm and, if necessary, the implementation of risk-minimizing measures, the development of compliance-relevant guidelines, worldwide employee training and regular reporting to the Management Board and Supervisory Board or Audit Committee.

The Lenzing Group complies with the rules defined by the Austrian Code of Corporate Governance (ACCG) and prepares a Corporate Governance Report which is published as part of the Annual Report. The Corporate Governance Report requires the participation of the Supervisory Board, which delegates the responsibility for monitoring compliance with the related obligations to the Audit Committee.

The Internal Audit Department is independent of all other organizational units and business processes and reports directly to the Chief Financial Officer. It evaluates whether the Group's resources are used legally, economically, efficiently and correctly in the interest of sustainable development. The activities of Internal Audit are based on the international standards published by the Institute of Internal Auditors (IIA). Regular reporting to the Management Board and the Audit Committee ensure the proper functioning of the internal control system.

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

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

Shareholder structure and information on capital

Share capital and shareholder structure

The share capital of Lenzing AG totaled EUR 27,574,071.43 as of December 31, 2019 and is divided into 26,550,000 no-par-value shares. The B&C Group is the majority shareholder with an investment in voting rights of 50 percent plus two shares. Bank of Montreal holds 4.1 percent of the shares. The free float amounts to 45.9 and is held by Austrian and international investors. The Lenzing Group holds no treasury shares.

Position of shareholders

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

Lenzing AG has no shares with special control rights. A resolution passed by the Annual General Meeting on April 12, 2018 authorized the Management Board, subject to the consent of the Supervisory Board, to purchase treasury shares of the company for a period of 30 months starting on the day of the resolution in accordance with Section 65 Para. 1 no. 8 and Para. 1a and 1b of the Austrian Stock Corporation Act. The treasury shares acquired by the company may not exceed ten percent of the company's share capital. The equivalent to be paid for the repurchase must be within a range of plus/minus 25 percent of the weighted average closing price of the last 20 stock exchange days prior to the start of the corresponding repurchasing program of the Lenzing share.

The Management Board was also authorized, subject to the consent of the Supervisory Board, to withdraw repurchased treasury shares without any further resolution by the Annual General Meeting (including the authorization of the Supervisory Board to adopt changes to the articles of association resulting from withdrawing the shares), or to resell them and to determine the conditions of sale. This authorization can be exercised in full, in several parts and in pursuit of one or several objectives by the company, by a subsidiary (Section 189a no. 7 of the Austrian Commercial Code) or by third parties for the company's account.

In addition, the Management Board was authorized for a period of five years from the date of the resolution to adopt the sale of treasury shares, subject to the consent of the Supervisory Board, in any manner permitted by law other than through the stock exchange or public offer, also excluding shareholders' repurchasing rights (subscription rights), and to determine the conditions of sale.

A resolution passed by the Annual General Meeting on April 12, 2018 authorized the Management Board, subject to the consent of the Supervisory Board, to increase share capital by up to EUR 13,787,034.68 through the issue of up to 13,274,999 no-par-value bearer shares – also in tranches – in exchange for cash and/or contributions in kind, within five years from the entry the changes in the articles of association in the commercial register and to determine the issue price and other issue conditions ("authorized capital"). This authorized capital was recorded in the commercial register on May 23, 2018.

The statutory subscription right may be granted to shareholders in such a way that the capital increase is underwritten by a bank or a consortium of banks with the obligation to offer it to shareholders in accordance with their subscription right (indirect subscription right).

The Management Board was also authorized, subject to the consent of the Supervisory Board, to exclude shareholders' subscription rights in the event of a capital increase from the authorized capital in whole or in part (i) if the capital increase in exchange for contributions in kind is carried out for the purpose of acquiring companies, parts of companies, operations, parts of operations, participations in companies or other assets connected with an acquisition project, (ii) to satisfy an over-allotment option (greenshoe) or (iii) to compensate for fractional amounts.

In addition, the Management Board was authorized by a resolution of the Annual General Meeting on April 12, 2018 to issue, subject to the consent of the Supervisory Board, convertible bonds in one or several tranches that grant or provide for the subscription or conversion right or a subscription or conversion obligation for up to 13,274,999 shares of the company. They can be serviced through the conditional capital to be adopted and/or treasury shares. The issue price and issue conditions shall be determined by the Management Board, subject to the consent of the Supervisory Board; the issue amount and the exchange ratio shall be determined in accordance with recognized methods of financial mathematics and the price of the Company's shares in a recognized pricing procedure. This authorization is valid until April 12, 2023.

The statutory subscription right may be granted to shareholders in such a way that the convertible bonds are taken over by a bank or a consortium of banks with the obligation to offer them to the shareholders in accordance with their subscription right (indirect subscription right).

The Management Board was authorized, subject to the consent of the Supervisory Board, to exclude the subscription right of shareholders when issuing convertible bonds in whole or in part (i) if the convertible bonds in exchange for contributions in kind are issued for the purpose of acquiring companies, parts of companies, operations, parts of operations, participations in companies or other assets relating to an acquisition project, or (ii) for the compensation of fractional amounts resulting from the subscription ratio.

The Management Board was also authorized, subject to the approval of the Supervisory Board, to exclude the subscription right for convertible bonds in whole or in part, provided that the Management Board, after due examination, comes to the conclusion that the issue price of the convertible bonds at the time of the final determination of the issue price is not less than the hypothetical market value determined according to recognized, in particular financial-mathematical methods and that the conversion price or subscription price (issue price) of the subscription shares is determined by taking into account recognized methods of financial mathematics and the price of the company's ordinary shares in a recognized pricing procedure, and is not lower than the stock market price of the company's shares during the last 20 trading days prior to the date of announcement of the issue of convertible bonds.

The Management Board did not make use of the existing authorizations during the 2019 financial year.

Detailed information on the Annual General Meeting, proposals for resolutions and the results of voting are published on the website Lenzing AG:
https://www.lenzing.com/investors/shareholders-meeting/2019

The 76th Annual General Meeting will be held on April 16, 2020 in the "Kulturzentrum Lenzing", 4860 Lenzing.

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

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

Outlook

The International Monetary Fund expects a slight recovery of global economic growth to 3.3 percent in 2020, while at the same time warning of several risks. The increased frequency of extreme weather events and currently also the coronavirus threaten to have a strong impact on the global economy in 2020. The currency environment in the regions relevant to Lenzing will remain volatile.

Demand on the global fiber markets is currently difficult to predict due to the spreading of the coronavirus, which is paralyzing large parts of the textile value chain, especially in China. According to preliminary calculations, cotton stock levels will remain high in the 2019/2020 season. The price levels for cotton and polyester are expected to remain subdued.

Capacity expansions for standard viscose are expected to be lower than in 2019, but will nevertheless lead to an increase in surplus capacity. The pressure on prices, which have been at a historic low for a considerable period of time, should therefore persist in 2020. Despite additional lyocell capacities in China and low visibility, the Lenzing Group expects the comparatively positive development of its specialty fiber business to continue.

Driven by the challenging situation in standard viscose and low paper pulp prices, prices for dissolving wood pulp remain at a comparatively low level. Caustic soda prices in Asia have already declined significantly over the past months; this development is now also noticeable in Europe.

The above effects significantly impact earnings visibility for 2020. The Lenzing Group currently expects the result for 2020 to be below the level of 2019.

The market developments reassure the Lenzing Group in its chosen corporate strategy sCore TEN. Lenzing will continue to put a particular focus on the strategic investment projects which will yield a significant contribution to earnings starting from 2022.

Lenzing, March 3, 2020
Lenzing Aktiengesellschaft

The Management Board

Stefan Doboczky
Chief Executive Officer
Chairman of the
Management Board

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

Thomas Obendrauf
Chief Financial Officer
Member of the
Management Board

Stephan Sielaff
Chief Technology Officer
Member of the
Management Board

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

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

The effect of the first-time adoption of IFRS 16 (Leases) as at January 1, 2019 on the key financial indicators of the Lenzing Group is rather immaterial. Additional information on the effect of the first-time adoption of IFRS 16 is provided in note 2 to the consolidated financial statements.

EBITDA, EBITDA margin, EBIT and EBIT margin

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

EUR mn	2019	2018	2017	2016	2015
Earnings before interest, tax, depreciation and amortization (EBITDA)	326.9	382.0	502.5	428.3	290.1
/ Revenue	2,105.2	2,176.0	2,259.4	2,134.1	1,976.8
EBITDA margin	**15.5%**	**17.6%**	**22.2%**	**20.1%**	**14.7%**

EUR mn	2019	2018	2017	2016	2015
Earnings before interest and tax (EBIT)	162.3	237.6	371.0	296.3	151.1
/ Revenue	2,105.2	2,176.0	2,259.4	2,134.1	1,976.8
EBIT margin	**7.7%**	**10.9%**	**16.4%**	**13.9%**	**7.6%**

EBT

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

Gross cash flow

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

Free cash flow

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

EUR mn	2019	2018	2017	2016	2015
Cash flow from operating activities	244.6	280.0	271.1	473.4	215.6
- Cash flow from investing activities	(254.7)	(261.8)	(218.6)	(103.6)	(56.5)
- Net inflow from the sale and disposal of subsidiaries and other business areas	0.0	(0.1)	(3.1)	(1.4)	(13.4)
+ Acquisition of financial assets and investments accounted for using the equity method	15.6	8.0	6.5	3.5	4.9
- Proceeds from the sale/repayment of financial assets	(4.7)	(2.6)	(23.4)	(5.6)	(5.6)
Free cash flow	**0.8**	**23.5**	**32.6**	**366.3**	**145.0**

CAPEX

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

Liquid assets

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

EUR mn as at 31/12	2019	2018	2017	2016	2015
Cash and cash equivalents	571.5	243.9	306.5	559.6	347.3
+ Liquid bills of exchange (in trade receivables)	9.5	10.5	9.4	10.8	8.1
Liquid assets	**581.0**	**254.4**	**315.8**	**570.4**	**355.3**

Trading working capital and trading working capital to annualized group revenue

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

EUR mn as at 31/12	2019	2018	2017	2016	2015
Inventories	395.7	396.5	340.1	329.4	338.5
+ Trade receivables	251.4	299.6	292.8	277.4	258.9
- Trade payables	(243.6)	(251.7)	(218.4)	(227.2)	(150.0)
Trading working capital	**403.5**	**444.4**	**414.4**	**379.6**	**447.4**

EUR mn	2019	2018	2017	2016	2015
Latest reported quarterly group revenue (= 4th quarter respectively)	487.3	539.8	532.8	555.7	518.0
x 4 (= annualized group revenue)	1,949.3	2,159.1	2,131.1	2,222.9	2,071.8
Trading working capital to annualized group revenue	**20.7%**	**20.6%**	**19.4%**	**17.1%**	**21.6%**

Adjusted equity and adjusted equity ratio

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

EUR mn as at 31/12	2019	2018	2017	2016	2015[1]
Equity	1,537.9	1,533.9	1,507.9	1,368.5	1,198.9
+ Non-current government grants	15.4	16.9	18.3	17.0	17.8
+ Current government grants	13.1	8.4	7.9	11.9	8.0
- Proportional share of deferred taxes on government grants	(7.1)	(6.3)	(6.4)	(7.0)	(6.1)
Adjusted equity	1,559.3	1,553.0	1,527.7	1,390.5	1,218.6
/ Total assets	3,121.1	2,630.9	2,497.3	2,625.3	2,410.6
Adjusted equity ratio	**50.0%**	**59.0%**	**61.2%**	**53.0%**	**50.6%**

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).

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

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

EUR mn as at 31/12	2019	2018	2017	2016	2015
Current financial liabilities	129.6	166.2	127.3	249.2	172.3
+ Non-current financial liabilities	852.0	307.6	255.3	328.3	510.9
- Liquid assets	(581.0)	(254.4)	(315.8)	(570.4)	(355.3)
Net financial debt	400.6	219.4	66.8	7.2	327.9
/ Earnings before interest, tax, depreciation and amortization (EBITDA)	326.9	382.0	502.5	428.3	290.1
Net financial debt / EBITDA	**1.2**	**0.6**	**0.1**	**0.0**	**1.1**

EUR mn as at 31/12	2019	2018	2017	2016	2015[1]
Net financial debt	400.6	219.4	66.8	7.2	327.9
/ Adjusted equity	1,559.3	1,553.0	1,527.7	1,390.5	1,218.6
Net gearing	**25.7%**	**14.1%**	**4.4%**	**0.5%**	**26.9%**

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).

EUR mn as at 31/12	2019	2018	2017	2016	2015
Net financial debt	400.6	219.4	66.8	7.2	327.9
+ Provisions for severance payments and pensions	110.8	103.4	105.4	108.6	96.5
Net debt	**511.4**	**322.8**	**172.2**	**115.8**	**424.5**

Return on capital (ROE, ROI and ROCE)

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

EUR mn	2019	2018	2017	2016	2015[1]
Earnings before interest and tax (EBIT)	162.3	237.6	371.0	296.3	151.1
- Proportional share of current income tax expense (on EBIT)	(60.7)	(57.8)	(79.2)	(64.1)	(23.8)
Earnings before interest and tax (EBIT) less proportional share of current income tax expense (NOPAT)	**101.7**	**179.8**	**291.8**	**232.2**	**127.4**
/ Average capital employed	1,922.7	1,750.3	1,571.8	1,541.0	1,578.7
ROCE (return on capital employed)	**5.3%**	**10.3%**	**18.6%**	**15.1%**	**8.1%**
Proportional share of current income tax expense (on EBIT)	(60.7)	(57.8)	(79.2)	(64.1)	(23.8)
Proportional share of other current tax expense	0.0	3.5	2.5	3.0	3.4
Current income tax expense	**(60.7)**	**(54.3)**	**(76.7)**	**(61.1)**	**(20.3)**

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).

EUR mn as at 31/12	2019	2018	2017	2016	2015[1]
Total assets	3,121.1	2,630.9	2,497.3	2,625.3	2,410.6
- Trade payables	(243.6)	(251.7)	(218.4)	(227.2)	(150.0)
- Non-current puttable non-controlling interests	0.0	0.0	(18.0)	(13.0)	(8.3)
- Other non-current liabilities	(5.0)	(4.2)	(3.8)	(3.7)	(3.1)
- Other current liabilities	(45.7)	(46.9)	(38.5)	(92.5)	(85.3)
- Current tax liabilities	(20.7)	(10.4)	(21.6)	(25.7)	(10.6)
- Deferred tax liabilities	(41.9)	(50.4)	(52.7)	(52.9)	(52.9)
- Proportional share of deferred taxes on government grants	(7.1)	(6.3)	(6.4)	(7.0)	(6.1)
- Current provisions	(87.4)	(107.9)	(95.7)	(97.2)	(69.9)
- Non-current provisions	(128.8)	(126.5)	(131.7)	(138.1)	(122.7)
+ Provisions for severance payments and pensions	110.8	103.4	105.4	108.6	96.5
- Cash and cash equivalents	(571.5)	(243.9)	(306.5)	(559.6)	(347.3)
- Investments accounted for using the equity method	(29.2)	(13.4)	(8.4)	(12.7)	(25.6)
- Financial assets	(41.8)	(36.7)	(36.4)	(25.1)	(22.8)
As at 31/12	2,009.1	1,836.3	1,664.4	1,479.2	1,602.7
As at 01/01	1,836.3	1,664.4	1,479.2	1,602.7	1,554.7
Average capital employed	**1,922.7**	**1,750.3**	**1,571.8**	**1,541.0**	**1,578.7**

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).

EUR mn as at 31/12	2019	2018	2017	2016	2015[1]
Adjusted equity 31/12	1,559.3	1,553.0	1,527.7	1,390.5	1,218.6
Adjusted equity 01/01	1,553.0	1,527.7	1,390.5	1,218.6	1,054.9
Average adjusted equity	**1,556.1**	**1,540.3**	**1,459.1**	**1,304.5**	**1,136.8**

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).

EUR mn	2019	2018	2017	2016	2015[1]
Earnings before tax (EBT)	163.8	199.1	357.4	294.6	147.4
/ Average adjusted equity	1,556.1	1,540.3	1,459.1	1,304.5	1,136.8
ROE (return on equity)	**10.5%**	**12.9%**	**24.5%**	**22.6%**	**13.0%**

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).

EUR mn as at 31/12	2019	2018	2017	2016	2015[1]
Total assets 31/12	3,121.1	2,630.9	2,497.3	2,625.3	2,410.6
Total assets 01/01	2,630.9	2,497.3	2,625.3	2,410.6	2,359.2
Average total assets	**2,876.0**	**2,564.1**	**2,561.3**	**2,518.0**	**2,384.9**

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).

EUR mn	2019	2018	2017	2016	2015[1]
Earnings before interest and tax (EBIT)	162.3	237.6	371.0	296.3	151.1
/ Average total assets	2,876.0	2,564.1	2,561.3	2,518.0	2,384.9
ROI (return on investment)	**5.6%**	**9.3%**	**14.5%**	**11.8%**	**6.3%**

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).

Lenzing attaches great value to the integrity and legally compliant behavior of all employees and business partners.

Corporate Governance Report 2019

Corporate Governance Report 2019

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

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

Declaration of Commitment

Lenzing AG respects the ACCG and, for the first time in 2010, committed itself to compliance with the documented provisions. The Supervisory Board also unanimously resolved to fully adhere to the ACCG. The current version of the code (January 2018) is available on the Internet under www.corporate-governance.at. In accordance with L-Rule 60 of the ACCG, Lenzing AG is required to prepare and publish a Corporate Governance Report. The Corporate Governance Report of Lenzing AG also represents the consolidated Corporate Governance Report for the Lenzing Group.

This Corporate Governance Report is published on the website of Lenzing AG in accordance with C-Rule 61 of the ACCG (https://www.lenzing.com/investors/corporate-governance/evaluations-reports).

The Corporate Bodies of Lenzing AG

The division of responsibilities among the members of Lenzing's Management Board during the 2019 financial year was as follows:

Management Board

Stefan Doboczky (born 1967)

Chairman of the Management Board,
Chief Executive Officer
First appointed: June 1, 2015
Current term of office ends: December 31, 2022

Responsibilities: Region Europe and Americas, Region AMEA, Region North Asia, Global Pulp & Wood, Global HR, Global R&D, Corporate Strategy & M&A, Legal IP & Compliance, Corporate Communications & Investor Relations, Pulp Expansion

On an interim basis due to the resignation of the CTO: Technology, Global SHE, Global Engineering

Supervisory board functions in other companies: OMV

Management and monitoring functions in major subsidiaries: none

Robert van de Kerkhof (born 1964)

Member of the Management Board,
Chief Commercial Officer
First appointed: May 1, 2014
Current term of office ends: December 31, 2023

Responsibilities: Global Business Management Textiles, Nonwovens and New Business Areas, Corporate Sustainability, Global Brand Management, Global Supply Chain, Commercial Innovation, Corporate Commercial Projects

On an interim basis due to the resignation of the CTO: Global Quality Management & Technical Customer Service

Supervisory board functions in other companies: none

Management and monitoring functions in major subsidiaries: none

Thomas Obendrauf (born 1970)

Member of the Management Board,
Chief Financial Officer
First appointed: March 1, 2016
Current term of office ends: June 30, 2022

Responsibilities: Global Accounting & Tax Management, Global Controlling, Global Treasury, Finance AMEA, Finance North Asia, Finance Europe and Americas, Finance Pulp & Wood, Global Purchasing, Global Process & Information Technology, Internal Audit & Risk Management

On an interim basis due to the resignation of the CTO: Special Projects – Lyocell fiber plant Thailand, Lenzing Technik

Supervisory board functions in other companies none

Management and monitoring functions in major subsidiaries: Lenzing (Nanjing) Fibers Co., Ltd., Biocel Paskov a.s.

Heiko Arnold (born 1966)

Chief Technology Officer
First appointed: May 1, 2017
Heiko Arnold resigned from the Management Board on December 1, 2019.

At the Supervisory Board meeting of Lenzing AG held on December 11, 2019, Stephan Sielaff was appointed member of the Management Board (Chief Technology Officer) for a period of three years with effect from March 1, 2020. The responsibilities of the Chief Technology Officer are carried out on an interim basis by Stefan Doboczky, Thomas Obendrauf and Robert van de Kerkhof until February 28, 2020.

As part of an organizational change, Christian Skilich was appointed member of the Management Board for a period of three years with effect from June 1, 2020.

The Management Board directs the business operations of Lenzing AG in accordance with the applicable legal regulations, the Articles of Association and the internal rules of procedure for the Management Board.

The distribution of responsibilities among the individual members of the Management Board is based on the organizational plan specified in the internal rules of procedure, which also regulates the cooperation between the Management Board members. Furthermore, the Management Board is required to comply in full with the rules stated in the Austrian Code of Corporate Governance.

Supervisory Board

Composition

Peter Edelmann (born 1959)

First appointed: April 12, 2018
Since April 17, 2019: Chairman

Current term of office ends at the Annual General Meeting which will pass resolutions on the 2020 financial year.

Supervisory Board functions in other companies: Semperit AG Holding, AMAG Austria Metall AG, Orcan Energy AG

Veit Sorger (born 1942)

First appointed: June 4, 2004
Since March 29, 2011: Deputy Chairman

Current term of office ends at the Annual General Meeting which will pass resolutions on the 2020 financial year.

Supervisory Board functions in other companies: Mondi AG (Chairman), Constantia Industries AG (Deputy Chairman), Binder+Co AG, GrECo International Holding AG

Helmut Bernkopf (born 1967)

First appointed: April 23, 2009

Current term of office ends at the Annual General Meeting which will pass resolutions on the 2022 financial year.

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Supervisory Board functions in other companies: Oesterreichische Entwicklungsbank AG (Chairman), OeKB CSD GmbH (Deputy Chairman), Acredia Versicherung AG, OeKB EH Beteiligungs- und Management AG, Österreichische Hotel- und Tourismusbank GmbH (Chairman)

Christian Bruch (born 1970)
First appointed: April 17, 2019

Current term of office ends at the Annual General Meeting which will pass resolutions on the 2022 financial year.

Supervisory Board functions in other companies: None

Stefan Fida (born 1979)
First appointed: April 17, 2019

Current term of office ends at the Annual General Meeting which will pass resolutions on the 2020 financial year.

Supervisory Board functions in other companies: Semperit AG Holding

Felix Fremerey (born 1961)
First appointed: April 12, 2018

Current term of office ends at the Annual General Meeting which will pass resolutions on the 2021 financial year.

Supervisory Board functions in other companies: Semperit Technische Produkte Gesellschaft m.b.H

Franz Gasselsberger, MBA (born 1959)
First appointed: April 24, 2013

Current term of office ends at the Annual General Meeting which will pass resolutions on the 2019 financial year.

Supervisory Board functions in other companies: Bank für Tirol und Vorarlberg Aktiengesellschaft (Chairman), BKS Bank AG, voestalpine AG, AMAG Austria Metall AG (until April 10, 2019)

Patrick Prügger (born 1975)
First appointed: March 29, 2011

Current term of office ends at the Annual General Meeting which will pass resolutions on the 2019 financial year.

Supervisory Board functions in other companies: AMAG Austria Metall AG, Semperit AG Holding (from May 8, 2019)

Astrid Skala-Kuhmann (born 1953)
First appointed: April 19, 2012

Current term of office ends at the Annual General Meeting which will pass resolutions on the 2021 financial year.

Supervisory Board functions in other companies: Semperit AG Holding, B&C Industrieholding GmbH, B&C LAG Holding GmbH

Hanno M. Bästlein (born 1963)
First appointed: April 28, 2014

Hanno M. Bästlein resigned from the Supervisory Board on April 17, 2019.

Supervisory Board functions in other companies: AMAG Austria Metall AG (until April 10, 2019), VA Intertrading Aktiengesellschaft (Chairman), B&C Industrieholding GmbH, B&C LAG Holding GMBH

Christoph Kollatz (born 1960)
First appointed: April 12, 2018
Since April 12, 2018: Deputy Chairman

Christoph Kollatz resigned from the Supervisory Board on April 17, 2019.

Supervisory Board functions in other companies: Semperit AG Holding (Chairman until May 8, 2019)

Supervisory Board members delegated by the Works Council:

Helmut Kirchmair (born 1968)
First appointed: 2015

Georg Liftinger (born 1961)
First appointed: 2008

Daniela Födinger (born 1964)
First appointed: 2014

Johann Schernberger (born 1964)
First appointed: 2001

Herbert Brauneis (born 1987)
First appointed: 2018

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

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

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

In accordance with C-Rule 54 of the ACCG, the Supervisory Board members Veit Sorger, Helmut Bernkopf, Christian Bruch and Franz Gasselsberger declared that they were neither shareholders with a stake of more than 10 percent in the company nor did they represent the interests of such shareholders during the 2019 financial year

Working procedures of the Supervisory Board

In order to fulfill its responsibility to monitor the work of the Management Board, the Supervisory Board of Lenzing AG holds meetings at least once each quarter. Five Supervisory Board meetings were held during the reporting year (C-Rule 36). The Supervisory Board was informed by the Management Board about the business development as well as major transactions and measures. The Supervisory Board supervised the work of the Management Board and provided advice regarding crucial strategic decisions. Central topics of the meetings included the business development, the strategic development of the Group, ongoing and planned expansion projects, focal points of research and development, personnel measures, financing measures as well as the discussion and approval of the budget for the 2019 financial year.

The Supervisory Board of Lenzing AG had seven committees in 2019 (C-Rules 34 and 39 of the ACCG):

Audit Committee

The Audit Committee carries out the responsibilities defined by Section 92 Para. 4a of the Austrian Stock Corporation Act. Accordingly, it is responsible, above all, for monitoring the accounting process and making recommendations or suggestions to ensure its reliability. This committee also oversees the effectiveness of the internal control system, internal audit and risk management. It supervises the audit of the annual and consolidated financial statements, examines and monitors the independence of the auditor and approves and controls non-audit services. The Audit Committee also examines the annual financial statements and prepares their approval by the full Supervisory Board, evaluates the Management Board's proposal for the distribution of profits, the Management Report and the Corporate Governance Report. The Chairman of the Audit Committee defines the reciprocal communication between the auditor and the Audit Committee (C-Rule 81a of the ACCG). The committee is required to report to the Supervisory Board on its activities. The Audit Committee met three times in 2019. The meetings focused on the reports and work of the auditor, compliance, sustainability reporting and the implementation of the internal audit schedule and the Risk Report.

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Members: Patrick Prügger (Chairman, financial expert), Peter Edelmann (since April 17, 2019), Hanno M. Bästlein (resigned on April 17, 2019), Franz Gasselsberger, Christoph Kollatz (resigned on April 17, 2019), Johann Schernberger, Georg Liftinger

Nomination Committee

The Supervisory Board has established a Nomination Committee. It makes recommendations to the Supervisory Board for appointments to fill vacant positions on the Management Board and deals with issues related to succession planning. In 2019 the committee prepared the appointments of Stephan Sielaff and Christian Skilich. Recommendations were also made to the Annual General Meeting for appointments to the Supervisory Board. The Nomination Committee met four times in 2019.

Members: Peter Edelmann (Chairman since April 17, 2019), Hanno M. Bästlein (resigned on April 17, 2019), Veit Sorger, Astrid Skala-Kuhmann, Johann Schernberger, Georg Liftinger

Remuneration Committee

The Supervisory Board has established a Remuneration Committee. It deals with the terms and conditions of the employment contracts with the members of the Management Board and ensures compliance with C-Rules 27, 27a and 28 of the ACCG. In addition, the Remuneration Committee is responsible for preparing and reviewing the remuneration policy for the Management Board members and Supervisory Board members, and for controlling the implementation of the remuneration policy for Management Board members. The four meetings held by the Remuneration Committee in 2019 focused, in particular, on evaluating the performance of the Management Board and the targets for 2019 as well as general remuneration issues relating to the Management Board. The committee also negotiated, approved and finalized the employment contracts with Stephan Sielaff and Christian Skilich and the agreement with respect to the resignation of Heiko Arnold on behalf of Lenzing AG.

Members: Peter Edelmann (Chairman since April 17, 2019), Hanno M. Bästlein (resigned on April 17, 2019), Veit Sorger

Strategy Committee

The Supervisory Board has established a Strategy Committee. It is responsible for reviewing the strategic positioning of the company and monitoring the implementation of the corporate strategy. In 2019 the Management Board discussed, in particular, issues related to Lenzing's market positioning, the further development of the sCore TEN strategy and the competitive environment with the Strategy Committee. Two meetings were held in the 2019 financial year.

Members: Peter Edelmann (Chairman since April 17, 2019), Hanno M. Bästlein (resigned on April 17, 2019), Astrid Skala-Kuhmann, Veit Sorger, Patrick Prügger, Christian Bruch (since April 17, 2019), Christoph Kollatz (resigned on April 17, 2019), Johann Schernberger, Georg Liftinger, Helmut Kirchmair (since April 17, 2019)

Committee for Urgent Matters

The Supervisory Board has formed a committee to deal with urgent matters. It is authorized to make decisions in particularly urgent cases on transactions which require the approval of the Supervisory Board. This committee did not meet in 2019.

Members: Peter Edelmann (Chairman, since April 17, 2019), Hanno M. Bästlein (resigned on April 17, 2019), Patrick Prügger (since April 17, 2019), Christoph Kollatz (resigned on April 17, 2019), Johann Schernberger

Committee for Large-CAPEX Projects

The Supervisory Board established a Committee for Large-CAPEX Projects for the first time in 2019. This committee deals with the ongoing support, consulting and control of the two large projects for the construction of a lyocell fiber plant in Thailand and the construction of a dissolving wood pulp plant in Brazil.

Members: Peter Edelmann (Chairman, since April 17, 2019), Christian Bruch (since April 17, 2019), Johann Schernberger (since April 17, 2019)

Committee for Strategic Financing Matters

At its meeting on December 11, 2019, the Supervisory Board of Lenzing AG established a Committee for Strategic Financing Matters. This committee deals with decisions regarding key topics of financing with respect to the simultaneous implementation of several large strategic projects.

Members: Peter Edelmann (Chairman), Patrick Prügger, Franz Gasselsberger, Helmut Bernkopf, Johann Schernberger, Georg Liftinger

Cooperation between the Management Board and the Supervisory Board

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

Self-evaluation by the Supervisory Board

In the 2019 financial year, the Supervisory Board carried out a self-evaluation again as required by C-Rule 36 of the ACCG in the form of a questionnaire, which focused on the control function of the Supervisory Board over the Management Board and compliance with the obligations of the Management Board to provide information to the Supervisory Board. The result of the self-evaluation shows that the activities of the Supervisory Board of Lenzing AG are again rated as good overall. The Supervisory Board has acted on individual suggestions from the self-evaluation process. As a result, measures designed to ensure efficiency improvements in the activities of the Supervisory Board have been derived.

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

The contracts of all four Management Board members were revised in January 2019, in particular with respect to the regulation of variable remuneration components. Total remuneration consists of a fixed current component, a variable current (performance-based) component (short-term incentive, STI) and a variable long-term (performance-based) component (long-term incentive, LTI).

- **Short-term Incentive (STI)**
  For the Management Board contracts valid in 2019, the STI is based on the financial benchmarks Group EBITDA and Group ROCE. In addition, the Remuneration Committee assesses non-financial criteria each year. These criteria may influence the amount of the bonus, which is determined on the basis of the financial benchmarks, by +/- 20 percent. In order to be entitled to a bonus, a threshold value must be achieved for at least one of the two financial benchmarks. The bonus is paid in cash after the end of the

respective financial year. The STI can amount to a maximum of 150 percent of the STI target value. The STI target value is an absolute amount.

- **Long-term Incentive (LTI)**
The LTI is granted on a rolling basis, i.e., in annual tranches. The assessment period for one tranche amounts to three years. The financial performance criteria are the average consolidated net profit for the year and average ROCE. In addition, the company's capital market performance is assessed in comparison with a group of selected listed companies. To this end, the total shareholder return – i.e., the share performance including dividend payments – is determined and compared with the peer group. The prerequisite for bonus entitlement is the achievement of a threshold value for at least one of the three benchmarks. The LTI is paid out in cash after the end of the three-year assessment period and can amount to a maximum of 200 percent of the (absolute) LTI target value. The LTI target value is an absolute amount.
If a Management Board member resigns from his Management Board mandate before his term expires or if the Management Board member is dismissed for material cause pursuant to Section 75 of the Austrian Stock Corporation Act, all entitlements to current LTI tranches of the current contractual period will lapse. As a result, the LTI also has a retention effect.

- The bonus of 81 percent for Stefan Doboczky, 93 percent for Robert van de Kerkhof, 52 percent for Thomas Obendrauf and 65 percent for Heiko Arnold in the reporting year is based on the current variable remuneration component plus the proportional share of the long-term bonus in relation to the current fixed component. There is no stock option program or other program for the transfer of shares at a favorable price.

- The Management Board is also entitled to contributions by the company to a pension fund, which amounted to EUR 163 thousand in 2019 (2018: EUR 152 thousand). Of this total, EUR 87 thousand are attributable to Stefan Doboczky, EUR 34 thousand to Robert van de Kerkhof, EUR 21 thousand to Thomas Obendrauf and EUR 21 thousand to Heiko Arnold.

- Company pension benefits as well as severance payments and entitlements to benefits on the termination of a board member's employment contract are based on the Federal Act on Corporate Staff and Self-Employment Provision.

- The provisions of C-Rule 27a of the ACCG are adequately taken into consideration in the event a Management Board contract is terminated prematurely.

- Die The company has concluded directors and officers liability insurance (D&O insurance), accident insurance and legal protection insurance for the members of the Management Board.

The following amounts totaling EUR 2,785 thousand in 2019 (2018: EUR 3,333 thousand) represent short-term benefits (current remuneration, fixed and variable).

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

	Stefan Doboczky		Robert van de Kerkhof		Thomas Obendrauf		Heiko Arnold[1]		Total	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Fixed current remuneration	854	778	463	437	412	397	413	398	2,141	2,010
Variable current remuneration	154	588	132	213	130	250	228	272	644	1,324
Total	**1,008**	**1,366**	**595**	**650**	**542**	**647**	**641**	**670**	**2,785**	**3,333**

1) Member of the Management Board until December 1, 2019

The expenses recognized for entitlements arising from long-term bonus models (other non-current employee benefits and share-based payments) rose by EUR 1,757 thousand in 2019 (2018: EUR 1,940 thousand). Of this total, EUR 957 thousand (2018: EUR 1,940 thousand) were related to other long-term benefits and EUR 800 thousand (2018: EUR 0 thousand) to payments related to the termination of employment contracts. In addition, post-employment benefits of EUR 267 thousand (2018: EUR 236 thousand) were also granted to the active members of the Management Board for company pensions and termination payments. The remuneration paid for former members of the Management Board of Lenzing AG or their surviving dependents amounted to EUR 1,067 thousand in 2019 (2018: EUR 1,033 thousand).

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

The remuneration of the Supervisory Board members for the 2018 financial year, which was approved by the Annual General Meeting of Lenzing AG on April 17, 2019, is as follows:

a. EUR 90,000 for the Chairman of the Supervisory Board

b. EUR 50,000 for the Deputy Chairman of the Supervisory Board

c. EUR 40,000 for each other Member of the Supervisory Board

d. EUR 50,000 for the Chairman auf the Audit Committee and the Strategy Committee as well as for the financial expert unless he/she is Chairman of the Audit Committee

e. EUR 25,000 for the Chairman of the Nomination Committee and the Remuneration Committee

f. EUR 20,000 for each member of the Audit Committee and the Strategy Committee

g. 10,000 for each member of the Nomination Committee and the Remuneration

Each Supervisory Board member also receives an attendance fee of EUR 1,500 for each Supervisory Board meeting. The members of the Supervisory Board committees each receive an attendance fee of EUR 1,500 for each committee meeting, unless these meetings are held on the same day as a Supervisory Board meeting.

The members of the Supervisory Board received the following remuneration for 2018 (in total EUR 866,000) which was paid out in 2019:

Hanno M. Bästlein (resigned on April 17, 2019)	EUR 226,500
Veit Sorger	EUR 103,500
Helmut Bernkopf	EUR 46,000
Peter Edelmann	EUR 64,500
Felix Fremerey	EUR 36,000
Franz Gasselsberger	EUR 61,000
Christoph Kollatz	EUR 78,000
Josef Krenner (resigned on April 12, 2018)	EUR 11,500
Patrick Prügger	EUR 131,500
Astrid Skala-Kuhmann	EUR 82,000
Felix Strohbichler (resigned on April 12, 2018)	EUR 25,500

For the first time, the remuneration was also paid out for the current financial year in 2019 (EUR 845,334 in total).

Peter Edelmann (Chairman since April 17, 2019)	EUR 183,167
Veit Sorger	EUR 105,000

Corporate Governance Report 2019

Hanno M. Bästlein (resigned on April 17, 2019)	EUR 74,500
Helmut Bernkopf	EUR 47,500
Christian Bruch	EUR 47,500
Stefan Fida	EUR 32,667
Felix Fremerey	EUR 47,500
Franz Gasselsberger	EUR 70,500
Christoph Kollatz	EUR 33,000
Patrick Prügger	EUR 122,000
Astrid Skala-Kuhmann	EUR 82,000

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

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

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

As a result, the focus on the transparency of corporate social responsibility and diversity is increased as part of a CSR initiative in 2020.

Astrid Skala-Kuhmann and Daniela Födinger are members of the Supervisory Board. Andrea Borgards has been a member of the Executive Committee, the highest management body, as Senior Vice President Pulp and Wood since 2018. One of the seven production sites – Lenzing Biocel Paskov – has been managed by Kateřina Kupková since 2019.

In addition to existing flexible working time models, home office and parental leave for both parents, a bilingual (English-German) daycare center "Fasernest" was established near the Lenzing plant in 2018 order to provide for the reconciliation of work and family life.

Compliance

Lenzing Global Code of Business Conduct

Lenzing attaches great value to the integrity and legally compliant behavior of all employees and business partners. As members of an internationally operating company, all executives and employees of Lenzing act as role models both nationally and internationally, for which the Lenzing Global Code of Business Conduct provides the basis. It is available to all employees on the intranet ("Lenzing Connect") and also accessible to external stakeholders on the website of the company.

Training

Understanding rules and regulations is a fundamental requirement for "correct" behavior. Therefore, eLearnings designed to convey the most important contents of the compliance directives have been implemented and expanded continuously since 2018.

New employees receive welcome folders and onboarding training on the Code of Conduct and on the topics of "Bribery and Corruption" and "Issuer Compliance" (approx. 170 employees at the Lenzing plant in 2019 = approx. 6 % of the site's employees). In addition, every employee receives training on data protection as part on an eLearning.

Roughly 950 employees worldwide (approx. 14 % of the total workforce) received training on the topic of bribery and corruption during the reporting period (753 of them via eLearning); in addition, 49 employees received training on know-how protection at a multi-day on-site course at the location in Thailand. 68 employees at the Lenzing site completed an eLearning on the topic of "house search". The Management Board, the members of the Executive Committee and the Extended Executive Committee attended a workshop on the topic of Leadership Compliance. Furthermore, monthly short courses are held in the entire commercial area.

Whistleblower system

Timely notification on ethical misconduct is important to take precautionary measures to prevent or reduce financial loss or reputational damage. In this context, our employees – and other stakeholders – are the primary and most valuable source of information. They in particular are able to support us in identifying violations of our Global Code of Business Conduct.

In order to enable our employees and other stakeholders to report concerns regarding, for example, corruption, bribes, conflicts of interest, antitrust laws or capital market law, an online-based whistleblowing system was established in the summer of 2017. Concerns can be reported anonymously and without fear of retaliation worldwide with this system.

Since the introduction of the system, 28 reports have been filed (six of them via a mailbox that has been set up), which were processed in a targeted manner in accordance with the internal Investigation Directive.

The Audit Committee is informed about the incidents reported twice per year.

Measures to fight cybercrime

Lenzing has taken targeted technical and organizational measures to strengthen resilience to data theft, manipulation of business processes and other forms of internet crimes for several years.

Like other Austrian companies, Lenzing is subject to increasingly intensive attacks using increasingly perfect methods such as spear-phishing and scam mails. The goal is to steal identities, extract or manipulate data or trigger unauthorized payments or deliveries.

Recurrent information and training, in particular for exposed departments, as well as technical measures such as smart filter and defense systems contribute to optimally support employees who act responsibly in exercising their tasks and effectively protecting our data and corporate values.

Corporate Governance Report 2019

Update Directives

The directives on the topics of “bribery and corruption” and “know-how protection” were subject to a relaunch and rolled out throughout the group in the reporting year.

Investigations

Two official investigations were carried out in the Lenzing Group during the reporting period. One of the investigations was completed without any follow-up measures while the other one is still ongoing.

Compliance violations

Compliance violations are collected by the Legal, IP und Compliance. As in the previous years, no material cases of corruption were reported at Lenzing in 2019. No public proceedings related to corruption were filed against the company or its employees during the reporting period. Likewise, no significant fines had to be paid for the violation of legal regulations.

No cases are pending due to anticompetitive practices.

At the meeting of the Audit Committee of the Supervisory Board on September 11, 2019, the Compliance Officer reported on the content, objectives and status of the compliance organization, and the structure of the compliance management systems in a separate agenda item.

Directors’ Dealings

The purchase and sale of shares by members of the Management Board and Supervisory Board are disclosed in accordance with the applicable legal regulations [Art. 19 Regulation (EU) No. 596/2014]. [Information on these purchases and sales is provided on the company’s website.]

Risk management and Internal Audit

The effectiveness of Lenzing’s risk management system was evaluated by the auditor, KPMG Austria GmbH, in accordance with Rule 83 of the ACCG and resulted in an unqualified opinion. The Management Board was informed of the audit results. In addition, the Head of Risk Management reports regularly on current risks at the Audit Committee meetings.

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

External evaluation

In accordance with C-Rule 62 of the ACCG, Lenzing must arrange for an external institution to evaluate its compliance with the C-Rules of the code on a regular basis, but at least every three years. Lenzing commissioned PwC Oberösterreich Wirtschaftsprüfung und Steuerberatung GmbH to evaluate its Corporate Governance Report for 2019. This evaluation concluded that the statement of compliance with the Austrian Code of Corporate Governance (January 2018 version) issued by Lenzing AG gives a true and fair representation of the actual situation. All external evaluation reports are published on the company's website under www.lenzing.com.

Diversity concept

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

Lenzing Aktiengesellschaft
Lenzing, March 3, 2020

The Management Board

Stefan Doboczky Chief Executive Officer Chairman of the Management Board	**Robert van de Kerkhof** Chief Commercial Officer Member of the Management Board	**Thomas Obendrauf** Chief Financial Officer Member of the Management Board	**Stephan Sielaff** Chief Technology Officer Member of the Management Board

> The Lenzing Group recorded a solid business development again in 2019 although the more difficult demand situation for textile fibers in general and the significant drop in prices for standard viscose were clearly noticeable.

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Consolidated Income Statement

for the period from January 1 to December 31, 2019

EUR '000

	Note	2019	2018
Revenue	(6)	2,105,231	2,176,013
Change in inventories of finished goods and work in progress		18,427	36,377
Own work capitalized		56,276	55,652
Other operating income	(7)	78,594	57,163
Cost of material and other purchased services	(8)	(1,257,290)	(1,297,265)
Personnel expenses	(9)	(395,928)	(374,499)
Other operating expenses	(10)	(278,402)	(271,462)
Earnings before interest, tax, depreciation and amortization (EBITDA)[1]		**326,908**	**381,980**
Amortization of intangible assets and depreciation of property, plant and equipment and right-of-use assets	(11)	(166,959)	(147,241)
Income from the release of investment grants		2,394	2,842
Earnings before interest and tax (EBIT)[1]		**162,343**	**237,580**
Income from investments accounted for using the equity method	(13)	1,375	(1,797)
Income from non-current and current financial assets	(14)	9,828	(5,154)
Financing costs	(15)	(9,700)	(9,097)
Financial result		**1,502**	**(16,048)**
Allocation of profit or loss to and measurement result of puttable non-controlling interests	(3)	0	(22,403)
Earnings before tax (EBT)[1]		**163,845**	**199,129**
Income tax expense	(16)	(48,904)	(50,929)
Net profit for the year		**114,941**	**148,201**
Net profit for the year attributable to shareholders of Lenzing AG		122,806	148,996
Attributable to non-controlling interests		(7,864)	(795)
Earnings per share		EUR	EUR
Diluted = basic	(17)	4.63	5.61

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

Consolidated Statement of Comprehensive Income

for the period from January 1 to December 31, 2019

EUR '000

	Note	2019	2018
Net profit for the year as per consolidated income statement		114,941	148,201
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit liability	(32)	(9,355)	99
Financial assets measured at fair value through other comprehensive income (equity instruments) – net fair value gain/loss on remeasurement recognized during the year	(28)	2,079	1,148
Income tax relating to these components of other comprehensive income	(28)	1,802	(234)
Investments accounted for using the equity method – share of other comprehensive income (net of tax)	(21)	(404)	2
		(5,877)	1,016
Items that may be reclassified to profit or loss			
Foreign operations – foreign currency translation differences arising during the year	(28)	19,016	15,077
Financial assets measured at fair value through other comprehensive income (debt instruments) – net fair value gain/loss on remeasurement recognized during the year	(28)	(59)	(76)
Financial assets measured at fair value through other comprehensive income (debt instruments) – reclassification of amounts relating to financial assets disposed during the year	(28)	(103)	(9)
Cash flow hedges – effective portion of changes in fair value recognized during the year and non-designated components	(28)	(9,353)	(14,231)
Cash flow hedges – reclassification to profit or loss	(28)	20,778	2,577
Income tax relating to these components of other comprehensive income	(28)	(2,451)	2,676
Investments accounted for using the equity method – share of other comprehensive income (net of tax)	(28)	(82)	(220)
		27,746	5,795
Other comprehensive income (net of tax)		21,869	6,811
Total comprehensive income		136,810	155,011
Total comprehensive income attributable to shareholders of Lenzing AG		144,011	154,238
Attributable to non-controlling interests		(7,201)	774

Lenzing AG

Consolidated Statement of Financial Position

as at December 31, 2019

EUR '000

Assets	Note	31/12/2019	31/12/2018
Intangible assets	(18)	28,221	21,334
Property, plant and equipment	(19)	1,597,163	1,495,340
Right-of-use assets	(20)	37,811	0
Investments accounted for using the equity method	(21)	29,215	13,367
Financial assets	(22)	41,803	36,679
Deferred tax assets	(31)	6,953	5,080
Current tax assets	(31)	25,631	18,845
Other non-current assets	(23)	17,090	4,754
Non-current assets		**1,783,887**	**1,595,400**
Inventories	(24)	395,683	396,487
Trade receivables	(25,26)	251,436	299,645
Current tax assets	(31)	1,154	3,138
Other current assets	(27)	117,429	92,380
Cash and cash equivalents		571,479	243,865
Current assets		**1,337,180**	**1,035,515**
Total assets		**3,121,068**	**2,630,915**

Equity and liabilities	Note	31/12/2019	31/12/2018
Share capital		27,574	27,574
Capital reserves		133,919	133,919
Other reserves		28,657	7,452
Retained earnings		1,322,856	1,332,802
Equity attributable to shareholders of Lenzing AG		**1,513,006**	**1,501,747**
Non-controlling interests		24,854	32,178
Equity	(28)	**1,537,860**	**1,533,925**
Financial liabilities	(30)	851,986	307,570
Government grants	(29)	15,378	16,879
Deferred tax liabilities	(31)	41,883	50,373
Provisions	(32)	128,792	126,484
Other liabilities	(33)	4,977	4,158
Non-current liabilities		**1,043,016**	**505,465**
Financial liabilities	(30)	129,606	166,197
Trade payables	(33)	243,589	251,721
Government grants	(29)	13,121	8,446
Current tax liabilities		20,736	10,413
Provisions	(32)	87,392	107,860
Other liabilities	(33)	45,748	46,888
Current liabilities		**540,191**	**591,525**
Total equity and liabilities		**3,121,068**	**2,630,915**

Consolidated Statement of Changes in Equity

for the period from January 1 to December 31, 2019

	Note	Share capital	Capital reserves	Foreign currency translation reserve
As at 01/01/2018 (previously)		27,574	133,919	29,630
First-time adoption of IFRS 9 (Financial Instruments)[1]		0	0	0
As at 01/01/2018 (adjusted)		27,574	133,919	29,630
Net profit for the year		0	0	0
Other comprehensive income (net of tax)		0	0	13,413
Total comprehensive income		**0**	**0**	**13,413**
Acquisition/disposal of non-controlling interests and other changes in the scope of consolidation	(3,28)	0	0	0
Dividends paid		0	0	0
Reclassification due to the change in share-based remuneration	(41)	0	0	0
As at 31/12/2018 = 01/01/2019		27,574	133,919	43,043
Net profit for the year		0	0	0
Other comprehensive income (net of tax)		0	0	18,146
Total comprehensive income		**0**	**0**	**18,146**
Acquisition/disposal of non-controlling interests and other changes in the scope of consolidation	(3,28)	0	0	0
Dividends paid		0	0	0
As at 31/12/2019	**(28)**	**27,574**	**133,919**	**61,189**

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

Other reserves						EUR '000
Financial assets measured at fair value through other comprehensive income	Hedging reserve and non-designated components	Actuarial gains/losses	Retained earnings	Equity attributable to shareholders of Lenzing AG	Non-controlling interests	Equity
4,483	3,837	(39,569)	1,316,434	**1,476,309**	31,570	**1,507,879**
3,978	0	0	(26)	**3,952**	(3)	**3,949**
8,461	3,837	(39,569)	1,316,408	**1,480,261**	31,567	**1,511,828**
0	0	0	148,996	**148,996**	(795)	**148,201**
798	(8,999)	30	0	**5,242**	1,569	**6,811**
798	(8,999)	30	148,996	**154,238**	774	**155,011**
0	0	0	(1)	**(1)**	1	**0**
0	0	0	(132,750)	**(132,750)**	(165)	**(132,915)**
0	0	(149)	149	**0**	0	**0**
9,259	(5,163)	(39,688)	1,332,802	**1,501,747**	32,178	**1,533,925**
0	0	0	122,806	**122,806**	(7,864)	**114,941**
1,439	8,933	(7,312)	0	**21,205**	664	**21,869**
1,439	8,933	(7,312)	122,806	**144,011**	(7,201)	**136,810**
0	0	0	(2)	**(2)**	2	**0**
0	0	0	(132,750)	**(132,750)**	(125)	**(132,875)**
10,698	**3,770**	**(47,000)**	**1,322,856**	**1,513,006**	**24,854**	**1,537,860**

Consolidated Statement of Cash Flows

for the period from January 1 to December 31, 2019

EUR '000

		Note	2019	2018
Net profit for the year			**114,941**	**148,201**
+	Amortization of intangible assets and depreciation of property, plant and equipment and right-of-use assets	(11)	166,959	147,241
–	Income from the release of investment grants		(2,394)	(2,842)
+/–	Change in non-current provisions		(5,286)	(2,154)
–/+	Income / expenses from deferred taxes		(11,798)	(3,392)
+/–	Change in current tax assets and liabilities		5,801	(27,428)
+/–	Income from investments accounted for using the equity method		(1,334)	1,838
–/+	Other non-cash income / expenses	(34)	27,072	42,508
Gross cash flow			**293,961**	**303,972**
+/–	Change in inventories		(29,138)	(62,381)
+/–	Change in receivables		30,502	6,041
+/–	Change in liabilities		(50,711)	32,403
Change in working capital			**(49,347)**	**(23,937)**
Cash flow from operating activities			**244,615**	**280,035**
–	Acquisition of intangible assets, property, plant and equipment (CAPEX)		(244,009)	(257,595)
–	Acquisition of financial assets and investments accounted for using the equity method		(15,587)	(8,023)
+	Proceeds from the sale of intangible assets, property, plant and equipment		153	1,100
+	Proceeds from the sale/repayment of financial assets and the sale of investments accounted for using the equity method	(34)	4,749	2,565
+	Net inflow from the sale and disposal of subsidiaries and other business areas	(4)	0	141
Cash flow from investing activities			**(254,694)**	**(261,812)**
–	Dividends paid		(132,875)	(132,915)
–	Acquisition of non-controlling interests	(3)	0	(40,620)
+	Investment grants		1,760	690
+	Increase of bonds and private placements	(34)	414,479	0
+	Increase in other financial liabilities	(34)	222,249	188,471
–	Repayment of bonds and private placements	(34)	(34,000)	(29,000)
–	Repayment of other financial liabilities	(34)	(138,360)	(68,586)
Cash flow from financing activities			**333,253**	**(81,960)**
Total change in liquid funds			**323,174**	**(63,737)**
Liquid funds at the beginning of the year			243,865	306,455
Currency translation adjustment relating to liquid funds			4,440	1,148
Liquid funds at the end of the year			**571,479**	**243,865**
Additional information on payments in the cash flow from operating activities:				
Interest payments received			1,687	1,846
Interest payments made			11,126	8,653
Income taxes paid			53,763	82,156
Distributions received from investments accounted for using the equity method			40	40

Notes to the Consolidated Financial Statements

as at December 31, 2019

General Information

Note 1. Basic information

Description of the company and its business activities

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

The core shareholder of Lenzing AG as at December 31, 2019 is the B&C Group, which directly and indirectly holds an investment of 50 percent plus two shares (December 31, 2018: 50 percent plus two shares) in the share capital of Lenzing AG. The direct majority shareholder of Lenzing AG is B&C LAG Holding GmbH, Vienna. The indirect majority shareholder of Lenzing AG, which prepares and publishes consolidated financial statements that include the Lenzing Group, is B&C Holding Österreich GmbH, Vienna. The ultimate parent company of the B&C Group, and therefore also of Lenzing AG, is B&C Privatstiftung, Vienna.

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

Basis of Reporting

The consolidated financial statements for the period from January 1 to December 31, 2019 were prepared in accordance with the International Financial Reporting Standards (IFRSs) and interpretations which were endorsed in the EU and required mandatory application as of the reporting date. The additional requirements of Section 245a Para. 1 of the Austrian Commercial Code ("Unternehmensgesetzbuch") were also met.

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

Measurement

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

- Provisions are measured at the present value of the expected settlement amount.
- Deferred tax assets and deferred tax liabilities are recognized at their nominal value. They are measured on the basis of the temporary differences existing as at the reporting date and the effective tax rate expected when the differences are realized.
- Derivative financial instruments and financial assets measured at fair value through profit or loss and at fair value through other comprehensive income are measured at their fair value.

Estimation uncertainty and judgments

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

Assumptions and estimates

The following future-oriented assumptions and other major sources of estimation uncertainty at the reporting date could have significant effects on these consolidated financial statements of the Lenzing Group:

- Intangible assets (see note 18) and property, plant and equipment (see note 19): determination of the recoverable amount in connection with impairment testing as defined in IAS 36.
- Financial instruments (see note 38): determination of fair values and expected credit losses.
- Provisions (see note 32): determination of the expected settlement amount and the net liability of the defined benefit pension and severance payment plans.
- Deferred taxes and receivables from current taxes (see note 31): assessment of the extent to which deferred tax assets (in particular, from loss carryforwards) can be utilized and assessment of the recoverability of receivables from current taxes.
- Research and development expenses (see note 18): Assessment of capitalization and impairment of development expenses.

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

Judgments

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

- Liabilities within the scope of reverse factoring agreements (see note 33): assessment of the requirements for derecognition as defined in IFRS 9.
- Full consolidation and equity method (see note 3 and note 42): assessment of the existence of control over subsidiaries and assessment of the existence of joint control or significant influence.
- Sale of investments accounted for using the equity method (see note 21): evaluation and measurement of the partial sale of the investment in EQUI-Fibres Beteiligungsgesellschaft mbH (EFB), Kelheim, Germany.
- Evidence of impairment (see note 18): evaluation of indications of impairment resp. for impaired cash-generating units evaluation of the occurrence of material changes in comparison with the previous year.

Note 2. Changes in accounting policies

The accounting policies applied by the Lenzing Group in 2019 remained unchanged in comparison with the previous financial year, with the exception of the changes described in this section.

Mandatory changes in accounting policies

The following new and amended standards and interpretations were adopted into EU law and required mandatory application by the Lenzing Group beginning with the 2019 financial year:

Standards/interpretations		Publication by the IASB	Mandatory application according to IASB for financial years from	Adopted by the EU as at 31/12/2019
IFRS 9	Financial Instruments: Clarification of Prepayment Features with Negative Compensation	12/10/2017	01/01/2019	yes
IFRS 16	Leases	13/01/2016	01/01/2019	yes
IAS 19	Employee Benefits: Clarification of accounting rules for plan changes, curtailments or settlements	07/02/2018	01/01/2019	yes
IAS 28	Investments in Associates and Joint Ventures: Clarification of the Application of IFRS 9 on Long-term Interests in Associates and Joint Ventures	12/10/2017	01/01/2019	yes
IFRIC 23	Uncertainty over Income Tax Treatments	07/06/2017	01/01/2019	yes
Various	Amendment of a number of IFRSs as a result of the 2015–2017 improvement process	12/12/2017	01/01/2019	yes

Initial application of IFRS 16

The Lenzing Group applied IFRS 16 (Leases) for the first time for the financial year beginning on January 1, 2019 using the modified retrospective approach. The presented changes in the accounting policies resulting from the first-time adoption of IFRS 16 lead to adjustments to the Lenzing Group's consolidated financial statements, which were recognized as of January 1, 2019. The exemption not to restate comparative information on the changes in classification and measurement (including impairment) for previous periods was utilized.

The weighted average incremental borrowing rate on the lease liabilities recognized for the first time as at January 1, 2019 amounts to 3.8 percent. A base rate was used per country, currency and term of the respective lease, which was increased by a credit spread and a country risk premium.

Lease contracts previously classified as finance leases under IAS 17 and IFRIC 4 will continue to be classified as leases. The immaterial effects resulting from the first-time adaption of the new leasing standard were communicated to the Supervisory Board.

Relief is provided for short-term leases and for leases of low-value assets. The Lenzing Group made use of this relief. Leases whose term ends within 12 months of the time of initial application are treated as if they were short-term leases. Hence, short-term leases and leases for low-value assets are not capitalized as right-of-use assets. Termination and extension options were taken into account when estimating the expected term of the leases. The option to select not to capitalize leasing contracts for intangible assets is used. The option to recognize the right-of-use asset in the amount of the lease liability less prepaid or accrued lease payments is used. At the time of initial application, the initial direct costs are not taken into consideration in the measurement of the right-of-use asset.

The following table shows the reconciliation from operating leases as at December 31, 2018 to the lease liability recognized as at January 1, 2019:

Reconciliation operating leases under IAS 17 to IFRS 16	**EUR '000**
Operating lease commitments disclosed as at 31/12/2018	22,435
- Effect from discounting using the incremental borrowing rate	(1,932)
Discounted operating lease commitments as at 01/01/2019	**20,503**
+ Finance lease liabilities recognized as at 31/12/2018	1,788
+ Adjustments due to changes in the expected terms of the leases considering termination and extension options	13,598
- Low-value leases	(7)
- Expenses from short-term leases	(1,727)
+ Currency translation adjustment	121
Lease liability as at 01/01/2019	**34,277**

The application of IFRS 16 results in the first-time recognition of right-of-use assets (increase in non-current assets) amounting to EUR 32,227 thousand and lease liabilities (increase in financial liabilities; as at December 31, 2018: EUR 1,788 thousand) of EUR 32,489 thousand, stemming from leases which were previously classified as operating leases, as at January 1, 2019. The right-of-use assets recognized are depreciated on a straight-line basis over their useful life, or the shorter term of the contract. The previous straight-line recognition of leasing expenses is replaced by the depreciation of the right-of-use asset and interest expense on the lease liability. As a result of the amended reporting requirements, EBITDA, EBIT, free cash flow, net financial debt, net debt and gearing will increase slightly. In contrast, ROCE, ROI and the adjusted equity ratio will decline slightly.

The other new or amended standards and interpretations applicable as of January 1, 2019 did not result in any significant changes to the consolidated financial statements of the Lenzing Group.

The following new or amended standards and interpretations had been published by the IASB prior to the preparation of these consolidated financial statements, but did not require mandatory application by the Lenzing Group for financial years beginning on or before January 1, 2019:

Standards/interpretations		**Publication by the IASB**	**Mandatory application according to IASB for financial years from**	**Adopted by the EU as at 31/12/2019**
Conceptual Framework	Updated References to the Conceptual Framework	29/03/2018	01/01/2020	yes
IFRS 3	Business Combinations: Definition of a Business	22/10/2018	01/01/2020	no
IFRS 10, IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	11/09/2014	unknown[1]	no
IFRS 14	Regulatory Deferral Accounts	30/01/2014	01/01/2016	no[2]
IFRS 17	Insurance Contracts	18/05/2017	01/01/2021	no
IAS 1	Presentation of financial statements: Classification of liabilities as current or non-current	23/01/2020	01/01/2022	no
IAS 1, IAS 8	Amendments in Definition of Material	31/10/2018	01/01/2020	yes
IFRS 9, IAS 39, IFRS 7	Interest Rate Benchmark Reform	26/09/2019	01/01/2020	yes

1) The IASB has deferred the effective date of this standard indefinitely.
2) The European Commission does not recommend the adoption of interim standard IFRS 14 into EU law at the present time.

The above-mentioned new or amended standards and interpretations were not adopted prematurely by the Lenzing Group. They are either not relevant for the Group or do not have a material impact on the earnings, assets or liabilities and the cash flows of the Lenzing Group.

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

Voluntary changes in accounting policies

There were no voluntary changes to accounting policies during the 2019 financial year.

Note 3. Consolidation

Scope of consolidation

The consolidated financial statements of the Lenzing Group include Lenzing AG, as the parent company, and its subsidiaries, all on the basis of financial statements as at December 31, 2019.

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

Development of the scope of consolidation (incl. parent company)

	2019		2018	
	Full-consolidation	Equity	Full-consolidation	Equity
As at 01/01	28	8	29	7
Included in consolidation for the first time during the year	2	0	1	1
Deconsolidated during the year	0	0	(2)	0
As at 31/12	30	8	28	8
Thereof in Austria	8	4	8	4
Thereof abroad	22	4	20	4

A list of the group companies as at December 31, 2019 is provided in note 42. The most important group companies produce and market botanic cellulosic fibers and, in some cases, pulp (Segment Fibers).

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

In June 2019, the subsidiary Lenzing Taiwan Fibers Ltd., Taipei, Taiwan was founded and included in the scope of fully consolidated companies.

In November 2019, the subsidiary Lenzing E-commerce (Shanghai) Co., Ltd., Shanghai, China was founded and included in the scope of fully consolidated companies.

In October 2018 the Lenzing Group acquired 30 percent of the shares in Lenzing (Nanjing) Fibers Co. Ltd, Nanjing, China, which had already been fully consolidated, for EUR 40,620 thousand. The investment in this company has consequently increased from 70 percent to 100 percent. As a result of this transaction, the puttable non-controlling interests have decreased to EUR 0 thousand. The measurement loss of EUR minus 21,436 thousand resulting from this transaction was recognized in the consolidated income statement under the item "Allocation of profit or loss to and measurement result of puttable non-controlling interests". The current allocation to profit or loss amounted to EUR 967 thousand.

In April 2018, the subsidiary LD Celulose S.A., Sao Paulo, Brazil was founded and included in the scope of fully consolidated companies. In addition, the joint venture LD Florestal S.A., Sao Paulo, Brazil was founded in April 2018 and included in the scope of consolidation using the equity method.

The previously fully consolidated subsidiaries ASIA Fiber Engineering GmbH, Vienna, Austria, and Cellulose Consulting GmbH, Vienna, Austria, were liquidated and deconsolidated in 2018.

Basis of consolidation

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

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

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

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

Exchange rates for key currencies

			2019		2018	
Unit		Currency	End of the year	Average	End of the year	Average
1 EUR	USD	US Dollar	1.1189	1.1196	1.1454	1.1815
1 EUR	GBP	British Pound	0.8521	0.8773	0.9027	0.8847
1 EUR	CZK	Czech Koruna	25.4630	25.6698	25.7780	25.6432
1 EUR	CNY	Renminbi Yuan	7.8175	7.7339	7.8778	7.8074
1 EUR	BRL	Brazilian Real	4.5128	4.41353	4.4427	4.3087

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

2019 financial year

The Lenzing Group had no non-current assets and liabilities held for sale and no discontinued operations as at December 31, 2019.

2018 financial year

Expenses of EUR 1,183 thousand before income tax were recognized in 2018 in connection with previously sold business areas and former discontinued operations due to the elimination of uncertainties and changes in estimates. This does not result in any tax income/expense. The result after tax therefore equals EUR minus 1,183 thousand. These amounts are attributable in full to the owners of the parent company. The cash effects are related to the payment of earn out receivables of EUR 141 thousand from the sale of consolidated subsidiaries in previous years. They are presented under cash flow from investing activities as part of the "net inflow from the sale and disposal of subsidiaries and other business areas".

The Lenzing Group had no non-current assets and liabilities held for sale and no discontinued operations as at December 31, 2018.

Note 5. Segment reporting

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

Segment Fibers

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

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

Segment Lenzing Technik

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

Other

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

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

Information on business segments

EUR '000

2019 and 31/12/2019	Fibers	Lenzing Technik	Other	Segment total	Reconciliation	Group
Revenue from external customers	2,091,215	11,548	2,468	**2,105,231**	0	**2,105,231**
Inter-segment revenue	4,234	18,593	3,541	**26,368**	(26,368)	**0**
Total revenue	**2,095,449**	**30,141**	**6,009**	**2,131,599**	**(26,368)**	**2,105,231**
EBITDA (segment result)	323,573	3,194	1,270	**328,037**	(1,129)	**326,908**
EBIT	157,194	2,106	1,168	**160,468**	1,875	**162,343**
Amortization of intangible assets and depreciation of property, plant and equipment and right-of-use assets	168,773	1,088	102	**169,963**	(3,004)	**166,959**
Thereof impaired	12,853	0	0	**12,853**	0	**12,853**
Income from investments accounted for using the equity method	1,334	0	40	**1,375**	0	**1,375**
Other material non-cash income and expenses	68,245	2,224	378	**70,847**	0	**70,847**
Acquisition of intangible assets, property, plant and equipment (CAPEX)	242,140	1,758	111	**244,009**	0	**244,009**
EBITDA margin[1]	15.4%	10.6%	21.1%	**15.4%**		**15.5%**
EBIT margin[2]	7.5%	7.0%	19.4%	**7.5%**		**7.7%**
Segment assets	2,473,012	19,399	3,612	**2,496,023**	625,045	**3,121,068**
Thereof investments accounted for using the equity method	28,061	0	1,154	**29,215**	0	**29,215**
Segment liabilities	529,827	10,343	2,638	**542,808**	1,040,400	**1,583,208**

Information on business segments (previous year)

EUR '000

2018 and 31/12/2018	Fibers	Lenzing Technik	Other	Segment total	Reconciliation	Group
Revenue from external customers	2,163,994	9,805	2,214	**2,176,013**	0	**2,176,013**
Inter-segment revenue	4,422	32,552	3,111	**40,085**	(40,085)	**0**
Total revenue	**2,168,416**	**42,357**	**5,325**	**2,216,098**	**(40,085)**	**2,176,013**
EBITDA (segment result)	381,046	2,237	901	**384,184**	(2,204)	**381,980**
EBIT	234,125	1,485	848	**236,458**	1,122	**237,580**
Amortization of intangible assets and depreciation of property, plant and equipment and right-of-use assets	149,763	752	53	**150,567**	(3,326)	**147,241**
Thereof impaired	8,711	0	0	**8,711**	0	**8,711**
Income from investments accounted for using the equity method	(1,127)	0	(671)	**(1,797)**	0	**(1,797)**
Other material non-cash income and expenses	86,094	3,201	333	**89,628**	0	**89,628**
Acquisition of intangible assets, property, plant and equipment (CAPEX)	254,633	2,822	140	**257,595**	0	**257,595**
EBITDA margin[1]	17.6%	5.3%	16.9%	**17.3%**		**17.6%**
EBIT margin[2]	10.8%	3.5%	15.9%	**10.7%**		**10.9%**
Segment assets	2,325,716	37,856	2,913	**2,366,484**	264,431	**2,630,915**
Thereof investments accounted for using the equity method	12,213	0	1,154	**13,367**	0	**13,367**
Segment liabilities	547,318	36,411	2,137	**585,866**	511,124	**1,096,990**

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

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

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

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

Reconciliation of earnings before interest, tax, depreciation and amortization (EBITDA) to the earnings before tax (EBT) EUR '000

	2019	2018
Earnings before interest, tax, depreciation and amortization (EBITDA)	326,908	381,980
Segment amortization of intangible assets and depreciation of property, plant and equipment	(169,963)	(150,567)
Consolidation	3,004	3,326
Income from the release of investment grants	2,394	2,842
Earnings before interest and tax (EBIT)	**162,343**	**237,580**
Financial result	1,502	(16,048)
Allocation of profit or loss to and measurement result of puttable non-controlling interests	0	(22,403)
Earnings before tax (EBT)	**163,845**	**199,129**

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

Reconciliation of segment assets to consolidated assets EUR '000

	31/12/2019	31/12/2018
Segment assets	2,496,023	2,366,484
Assets not allocated to the segments		
Financial assets	41,803	36,679
Deferred tax assets and current tax assets	33,737	27,062
Cash and cash equivalents	571,479	243,865
Consolidation	(21,975)	(43,176)
Consolidated assets	**3,121,068**	**2,630,915**

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

Reconciliation of segment liabilities to consolidated liabilities EUR '000

	31/12/2019	31/12/2018
Segment liabilities	542,808	585,866
Liabilities not allocated to the segments		
Financial liabilities	981,591	473,767
Deferred tax liabilities and current tax liabilities	62,619	60,786
Consolidation	(3,811)	(23,430)
Consolidated liabilities	**1,583,208**	**1,096,990**

The carrying amounts for segment reporting are based on the same accounting policies applied to the IFRS consolidated financial statements.

Information on products and services

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

Revenue from external customers by products and services EUR '000

	2019	2018
Botanic cellulosic fibers	1,771,082	1,846,729
Sodium sulfate and black liquor	56,884	52,050
Pulp, wood, energy and other	267,482	269,636
Segment Fibers	**2,095,449**	**2,168,416**
Mechanical and plant engineering and engineering services	30,141	42,357
Segment Lenzing Technik	**30,141**	**42,357**
Other and consolidation	(20,359)	(34,760)
Revenue as per consolidated income statement	**2,105,231**	**2,176,013**

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

Information on geographic regions

The following table provides a classification of revenue from external customers by sales market by geographic area.

Revenue from external customers by geographic regions EUR '000

	2019	2018
Austria	75,031	100,546
Europe (excl. Austria, incl. Turkey)	582,377	554,773
Asia	1,257,127	1,325,968
America	164,808	167,945
Rest of the world	16,106	19,184
Segment Fibers	**2,095,449**	**2,168,416**
Austria	15,897	14,569
Europe (excl. Austria, incl. Turkey)	5,360	6,089
Asia	5,827	3,344
America	3,068	18,340
Rest of the world	(12)	15
Segment Lenzing Technik	**30,141**	**42,357**
Other and consolidation	(20,359)	(34,760)
Revenue as per consolidated income statement	**2,105,231**	**2,176,013**

Revenue is allocated according to the geographic region of the customer.

The following table shows non-current assets (excluding financial instruments and tax assets; reconciled to the consolidated figures for total non-current assets) and total assets and acquisition of intangible assets and property, plant and equipment (CAPEX) by geographic region:

Information on non-current assets, total assets and CAPEX by geographic regions EUR '000

	Non-current assets		Total assets		CAPEX	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Austria	1,011,891	940,575	1,393,636	1,288,143	132,748	145,081
Europe (excl. Austria, incl. Turkey)	199,735	194,575	277,166	278,235	15,013	14,294
Asia	348,808	299,758	627,818	638,241	57,147	41,606
America	149,065	99,887	197,403	161,866	39,101	56,613
Subtotal	**1,709,500**	**1,534,796**	**2,496,023**	**2,366,484**	**244,009**	**257,595**
Reconciliation to consolidated figures	74,387	60,604	625,045	264,431	0	0
Consolidated total	**1,783,887**	**1,595,400**	**3,121,068**	**2,630,915**	**244,009**	**257,595**

Assets and CAPEX are allocated according to the geographic location of the assets. The above amounts cover all segments of the Lenzing Group. Additional information on the segments is provided in the management report of the Lenzing Group as at December 31, 2019.

Notes on the Consolidated Income Statement

Note 6. Revenue

The breakdown of revenue is shown in the segment report (see note 5, in particular information on products and services as well as geographic regions).

Revenue results exclusively from contracts with customers in accordance with IFRS 15 (Revenue from Contracts with Customers). Revenue comprises all income generated by the typical business activities of the Lenzing Group.

The Segment Fibers predominantly sells botanic cellulosic fibers. In addition, sodium sulfate and black liquor are also sold. Income is recognized at a point in time, and thus when ownership of the product has been transferred to the costumer (i.e. with the transfer of risks), the amount of income and the related costs can be reliably determined and the economic benefits from the transaction will probably flow to the Group.

The Segment Lenzing Technik operates in the field of mechanical and plant engineering and provides engineering services. Part of this income results from contracts with customers which is recognized over time. Revenue generated from contracts with customers recognized over time amounted to EUR 5.652 thousand (2018: EUR 3.113 thousand). Income from contracts with customers recognized over time is recognized according to the stage of completion in line with the cost-to-cost method (see note 26). The cost-to-cost method reflects the actual transfer of a service most reliably since the management also uses the project costs to monitor the course of the project.

Since all performance obligations in the Lenzing Group have a term of a maximum of one year, the remaining performance obligations are not disclosed.

Contract assets amount to EUR 126 thousand as at December 31, 2019 (December 31, 2018: EUR 14 thousand) and are recognized under trade receivables (see note 26).

Contract liabilities consist of the following:

Contract liabilities — **EUR '000**

	31/12/2019	31/12/2018
Down payments received (see note 33)	16,834	9,811
Accruals for discounts and rebates (see note 32)	2,357	3,106
Accruals for rights of return (see note 32)	0	120
Total	**19,191**	**13,036**

The amount of EUR 12,173 thousand included in contract liabilities at December 31, 2018 has been recognized as revenue in 2019 (2018: TEUR 11,362).

Note 7. Other operating income

Other operating income consists of the following:

Other operating income — **EUR '000**

	2019	2018
Income from green energy bonus	23,593	27,032
Income from the release of deferred income for emission certificates and from subsidies	18,574	14,257
Insurance compensation	17,920	1,838
Income from recharging of services and other products	9,972	8,074
Rental income	4,305	4,070
Sundry	4,231	1,892
Total	**78,594**	**57,163**

Note 8. Cost of material and other purchased services

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

Cost of material and other purchased services — **EUR '000**

	2019	2018
Material	1,110,200	1,147,990
Other purchased services	147,090	149,274
Total	**1,257,290**	**1,297,265**

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

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

Note 9. Personnel expenses

The following table shows the composition of personnel expenses:

Personnel expenses		EUR '000
	2019	2018
Wages and salaries	306,757	289,717
Expenses for severance payments and gratuity	6,147	6,203
Retirement benefit expenses	7,617	7,043
Statutory social security expenses	69,854	65,989
Other employee-related costs	5,554	5,547
Total	**395,928**	**374,499**

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

Number of employees (headcount)

	2019	2018
Average	6,775	6,609
As at 31/12	7,036	6,839

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

Average number of employees in Austria (headcount)

	2019	2018
Hourly workers	1,918	1,838
Salaried employees	1,469	1,388
Total	**3,387**	**3,226**

Note 10. Other operating expenses

Other operating expenses comprise the following:

Other operating expenses		EUR '000
	2019	2018
Outgoing freight	87,466	80,688
Maintenance, repairs and other third-party services	64,862	62,048
Selling expenses for commissions and advertising	24,999	17,870
Legal, consulting and audit expenses	21,303	21,601
Waste disposal expenses	13,490	9,566
Rental and leasing expenses	11,952	14,784
Travel expenses	11,356	11,130
Insurance expenses	9,267	8,135
Fees, contributions, donations and bank charges	8,565	6,949
Property taxes and similar taxes	4,750	5,103
Emission certificates	4,704	4,124
Registration and defense costs for patents and brands	3,246	5,115
Food and beverages	2,364	2,179
Foreign exchange loss	980	6,628
Losses on disposals of non-current assets	371	1,260
Sundry	8,725	14,280
Total	**278,402**	**271,462**

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

Amortization and depreciation include the following:

Amortization of intangible assets and depreciation of property, plant and equipment and right-of-use assets		EUR '000
	2019	2018
Amortization and depreciation	154,106	138,530
Impairment	12,853	8,711
Total	**166,959**	**147,241**

Depreciation of property, plant and equipment includes impairment losses of EUR 12,853 (2018: EUR 8,711 thousand), which are also reported under the "Development of property, plant and equipment" (see note 19). The impairment losses on property, plant and equipment in the 2019 financial year mainly represented prepayments and assets under construction.

Additional details on impairment are provided in note 18.

Note 12. Auditor's fees

The fees expensed for services provided by KPMG Austria GmbH, Linz comprise the following:

Auditors' fees expensed EUR '000

2019	Lenzing AG	Subsidiaries	Total
Audit of the annual financial statements (incl. consolidated financial statements)	278	152	**430**
Other assurance services	153	21	**174**
Other services	96	0	**96**
Total	**527**	**173**	**700**

Auditors' fees expensed (previous year) EUR '000

2018	Lenzing AG	Subsidiaries	Total
Audit of the annual financial statements (incl. consolidated financial statements)	265	149	**413**
Other assurance services	121	2	**122**
Other services	37	0	**37**
Total	**422**	**150**	**572**

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

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

The result of EUR 1,375 thousand (2018: EUR minus 1.797 thousand) corresponds to the Group's share of the current earnings of associates and joint ventures. In the 2019 financial year it includes an impairment of EQUI-Fibres Beteiligungsgesellschaft mbH (EFB) amounting to EUR minus 3,442 thousand (2018: EUR minus 1,339 thousand) (see note 21).

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

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

Income from non-current and current financial assets EUR '000

	2019	2018
Income from non-current and current financial assets		
Interest income from bank balances, originated loans and receivables	1,838	2,027
Measurement of financial assets at amortized cost	3,419	0
Interest income and income from the disposal of debt instruments measured at fair value directly in equity	157	184
Income from dividends for equity instruments measured at fair value directly in equity	983	237
Measurement of non-current financial assets measured at fair value	2,335	0
Gain on the disposal of available-for-sale securities	1,363	1,886
	10,096	**4,333**
Expenses from non-current and current financial assets		
Measurement of financial assets at amortized cost	(203)	(5,426)
Measurement and loss from the disposal of financial assets at fair value through profit or loss	(66)	(4,061)
	(269)	**(9,487)**
Total	**9,828**	**(5,154)**

Note 15. Financing costs

Financing costs comprise the following:

Financing costs EUR '000

	2019	2018
Net foreign currency gains/losses from financial liabilities	1,454	(251)
Interest expense for bonds and private placements	(3,897)	(5,490)
Interest expense for bank loans, other interest and similar expenses	(7,256)	(3,356)
Total	**(9,700)**	**(9,097)**

Note 16. Income tax expense

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

Income tax expense by source EUR '000

	2019	2018
Current income tax expense		
Austria	36,745	33,547
Abroad	23,957	20,774
	60,702	54,320
Income/expense from deferred taxes	(11,798)	(3,392)
Total	**48,904**	**50,929**

Income tax expense by cause EUR '000

	2019	2018
Current income tax expense		
Tax expense for current year	59,584	59,362
Reduction due to the use of tax losses	(79)	(170)
Reduction due to the use of tax credits	(9)	(4,125)
Adjustment for prior-period income tax	1,206	(746)
	60,702	54,320
Income/expense from deferred taxes		
Recognition and reversal of temporary differences	(9,767)	(3,848)
Effects of changes in tax rates	323	14
Change in capitalized loss carryforwards	(2,705)	32
Change in capitalized tax credits	0	1,662
Effects of previously unrecognized temporary differences from prior periods	(13)	(190)
Changes in valuation adjustment to deferred tax assets (excl. loss carryforwards)	363	(1,062)
	(11,798)	(3,392)
Total	**48,904**	**50,929**

A tax credit of EUR 8 thousand was claimed in the Czech Republic during 2019 (2018: EUR 4,121 thousand).

The reconciliation of calculated income tax expense based on the Austrian corporate tax rate of 25 percent (December 31, 2018: 25 percent) to effective income tax expense is shown in the following table:

Tax reconciliation EUR '000

	2019	2018
Earnings before tax (EBT)	163,845	199,129
Calculated income tax expense (25% of earnings before tax)	40,961	49,782
Tax-free income and tax allowances (particularly research allowance)	(4,014)	(2,401)
Non-deductible expenses, withholding taxes and similar permanent differences	2,380	2,394
Income from investments accounted for using the equity method	(343)	450
Effect of different tax rates	(5,846)	(5,704)
Changes in tax rates	323	14
Taxes from prior periods	1,194	(936)
Exchange rate differences resulting from the translation of deferred tax items from local into functional currency	(2,623)	3,556
Change in unrecognized deferred tax assets from loss carryforwards, tax credits and other temporary differences	16,834	(2,052)
Tax effect from puttable non-controlling interests	0	5,601
Other	38	226
Effective income tax expense	**48,904**	**50,929**

The item “taxes from prior periods” includes a tax credit of EUR 688 thousand (2018: tax credit of EUR 386 thousand) from the tax group with B&C Group (also see note 39).

Lenzing AG and the Austrian subsidiaries of the Lenzing Group are subject to an income tax rate of 25 percent (December 31, 2018: 25 percent). The income tax rates for foreign companies range from 11 percent to 34 percent (December 31, 2018: from 11 percent to 34 percent).

Note 17. Earnings per share

Earnings per share are calculated as follows:

Earnings per share EUR '000

	2019	2018
Net profit for the year attributable to shareholders of Lenzing AG used in the calculation of earnings per share	122,806	148,996
Weighted average number of shares	26,550,000	26,550,000
	EUR	EUR
Diluted = basic	4.63	5.61

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

Note 18. Intangible assets

Development

Intangible assets developed as follows:

Development of intangible assets EUR '000

2019	Goodwill	Concessions, industrial property rights, licenses and similar rights	Internally generated intangible assets	Total
Cost				
As at 01/01/2019	91,740	22,361	16,478	**130,579**
Currency translation adjustment	2,127	17	0	**2,144**
Addition	0	4,243	5,226	**9,470**
Disposals	0	(3,683)	0	**(3,683)**
As at 31/12/2019	93,867	22,939	21,704	**138,510**
Accumulated amortization				
As at 01/01/2019	(78,133)	(16,915)	(14,196)	**(109,245)**
Currency translation adjustment	(1,851)	(8)	0	**(1,859)**
Amortization	0	(2,265)	(493)	**(2,757)**
Disposals	0	3,571	0	**3,571**
As at 31/12/2019	(79,984)	(15,617)	(14,689)	**(110,290)**
Carrying amount as at 01/01/2019	13,606	5,446	2,281	**21,334**
Carrying amount as at 31/12/2019	**13,883**	**7,322**	**7,015**	**28,221**

Development of intangible assets (previous year) EUR '000

2018	Goodwill	Concessions, industrial property rights, licenses and similar rights	Internally generated intangible assets	Total
Cost				
As at 01/01/2018	88,298	19,875	16,170	**124,343**
Currency translation adjustment	3,442	(8)	0	**3,434**
Addition	0	2,896	308	**3,204**
Disposals	0	(402)	0	**(402)**
As at 31/12/2018	91,740	22,361	16,478	**130,579**
Accumulated amortization				
As at 01/01/2018	(74,622)	(15,649)	(13,711)	**(103,982)**
Currency translation adjustment	(3,512)	8	0	**(3,503)**
Amortization	0	(1,672)	(485)	**(2,157)**
Disposals	0	398	0	**398**
As at 31/12/2018	(78,133)	(16,915)	(14,196)	**(109,245)**
Carrying amount as at 01/01/2018	13,676	4,226	2,459	**20,361**
Carrying amount as at 31/12/2018	**13,606**	**5,446**	**2,281**	**21,334**

Additions in the 2019 financial year include purchased intangible assets of EUR 4,140 thousand and internally generated intangible assets of EUR 5,226 thousand (mainly process and product developments). Development costs are recognized as intangible assets if the specific requirements pursuant to IAS 38 are met, in particular, as to whether future economic benefits can be generated.

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

Useful lives for intangible assets

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

Research and development expenses

In the 2019 financial year the Lenzing Group incurred research and development expenses of EUR 53,248 thousand (2018: EUR 42,777 thousand) according to the Frascati method, and EUR 24,614 thousand (2018: EUR 27,650 thousand) according to IFRS.

Impairment tests of intangible assets, property, plant and equipment and cash-generating units (CGUs)

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

The Lenzing Group initially determines the recoverable amount based on the applicable fair value less costs of disposal. The Management and Supervisory Boards approve the budget; the medium-term plans for the next five years are approved by the Management Board and acknowledged by the Supervisory Board. These plans are the starting point for the cash flow projections on a post-tax basis to determine the fair value less costs of disposal. Based on the assumptions used in the previous year, a perpetual yield that includes a sustainable long-term growth rate is applied after the detailed planning period. The estimate for the sustainable long-term growth rate generally equals half of the inflation rate expected in the relevant country during the next few years, as projected by an international economic research agency. This value usually tends to offset general inflation. The planned/projected cash flows are discounted to their present value with a discounted cash flow method. Fair value measurement is classified in full as level 3 of the fair value hierarchy because key input factors (in particular, cash flows) cannot be observed on the market. The applied discount rate is calculated on an individual basis using the capital asset pricing model (CAPM) and represents a composite figure (weighted average cost of capital – WACC) that combines the average interest rate for debt and the anticipated return on equity employed. After-tax WACCs ranging from 6.4 percent to 7.3 percent were used in 2019 (2018 6.9 percent to 7.4 percent).

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

No impairments of CGUs in accordance with IAS 36 were recognized in the 2019 and 2018 financial years.

Impairment test of the CGU Fiber Site China

The carrying amounts of the intangible assets and property, plant and equipment of the CGU Fiber Site China impaired in previous years totaled EUR 45,387 thousand at December 31, 2019 (December 31, 2018: EUR 42,944). This amount includes accumulated impairment losses of EUR 20,045 thousand (December 31, 2018: EUR 25,016 thousand) from the previous impairment tests.

Due to an indication of impairment in accordance with IAS 36, the recoverable amount of the CGU Fiber Site China for the consolidated financial statements 2019 was determined. The recoverable amount showed sufficient coverage of the carrying amounts. The carrying amounts would increase (decrease) in particular if planned EBITDA or the long-term growth rate of perpetual yield increases (decreases) or the weighted average cost of capital (WACC) decreases (increases). In the event of an increase (decrease) in planned EBITDA by 1 percent, the recoverable amount determined would increase (decrease) by EUR 1,495 thousand. In the event of an increase (decrease) of the long-term growth rate of the perpetual yield by 0.1 percent, the recoverable amount will increase by EUR 1,944 thousand or decrease by EUR 1,885 thousand. If the weighted average cost of capital (WACC) decreases (increases) by 0.25 percent, the recoverable amount will increase by EUR 5,575 thousand or decrease by EUR 5,220 thousand.

Impairment test of the CGU Fiber Site Indonesia

Due to an indication of impairment in accordance with IAS 36, the recoverable amount of the CGU Fiber Site Indonesia was determined. The recoverable amount showed sufficient coverage of the carrying amounts.

Impairment test of the CGU Fiber Site USA

As a result of the focus on expanding the lyocell fiber capacity in Thailand and the related postponement of the investments in the USA, CGU Fiber Site USA was tested for impairment. No impairment was determined.

Since the temporary construction stop of additional lyocell capacities in Mobile, Alabama, USA in the 2018 financial year, the Management Board has regularly assessed potential uncertainties regarding future usability when resuming the project. In property, plant and equipment, assets under construction (engineering costs) were identified for which both the fair value less cost of disposal and the value in use were estimated to be lower than the carrying amount, and an impairment loss of EUR 12,853 thousand (2018 financial year: EUR 8,623 thousand) was recognized.

Goodwill and trademark rights with indefinite useful lives

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

Goodwill by segment/CGU EUR '000

	31/12/2019	31/12/2018
Segment Fibers		
CGU Pulp Site Czech Republic	10,372	10,245
Other CGUs	3,511	3,361
Total	**13,883**	**13,606**

The recoverable amount of the largest CGU with goodwill – the CGU Pulp Site Czech Republic – in 2019 was determined on the basis of fair value less costs of disposal. The measurement of fair value is classified in full under level 3 of the fair value hierarchy. The following individual assumptions from the most recent impairment tests were used for annual testing:

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

	2019 financial year	2018 financial year
CGU Pulp Site Czech Republic		
Average annual operating margin in planning period	15.9%	27.0%
Long-term growth rate of perpetual yield	1.1%	1.0%
After-tax discount rate (WACC)	7.3%	7.4%

The detailed planning period for the CGU Pulp Site Czech Republic covers five years. The average revenue growth during this period equals 3.0 percent per year (2018: 1.0 percent per year).

The estimated fair value less costs of disposal of the CGU Pulp Site Czech Republic exceeds the carrying amount by EUR 116,609 thousand (2018: EUR 369,782 thousand). This estimate is considered appropriate, but corrections may be required if there are changes in the underlying assumptions or circumstances. The following table shows a sensitivity analysis with hypothetical scenarios for the key assumptions as well as the possible changes in value as at the reporting date which, if they occurred, would result in the recoverable amount equaling the carrying amount of the CGU plus goodwill.

A long-term growth rate of 0.9 percent to 1.0 percent (2018: 1.0 percent) was taken into account in perpetual yield for the other CGUs with goodwill.

Sensitivity analysis of assumptions for impairment testing

	Values relating to key assumptions	Change in values relating to key assumptions for which the recoverable amount would equal the carrying amount
CGU Pulp Site Czech Republic		
Operating margin	15.9%	minus 5.2 percentage points
Long-term growth rate of perpetual yield	1.1%	minus 6.1 percentage points
After-tax discount rate (WACC)	7.3%	plus 4.0 percentage points

Sensitivity analysis of assumptions for impairment testing (previous year)

	Values relating to key assumptions	Change in values relating to key assumptions for which the recoverable amount would equal the carrying amount
CGU Pulp Site Czech Republic		
Operating margin	27.0%	minus 14.1 percentage points
Long-term growth rate of perpetual yield	1.0%	minus 25.4 percentage points
After-tax discount rate (WACC)	7.4%	plus 9.9 percentage points

Note 19. Property, plant and equipment

Development

Property, plant and equipment developed as follows:

Development of property, plant and equipment EUR '000

2019	Land and buildings	Technical equipment and machinery, factory and office equipment	Down payments and assets under construction	Total
Cost				
As at 01/01/2019	594,664	2,727,067	223,868	3,545,599
Currency translation adjustment	4,622	16,621	2,774	24,018
Reclassification right of use assets	0	(4,450)	0	(4,450)
Addition	8,967	91,732	149,422	250,120
Disposals	(37)	(15,351)	0	(15,388)
Reclassifications	20,763	67,952	(88,715)	0
As at 31/12/2019	628,979	2,883,570	287,350	3,799,899
Accumulated depreciation				
As at 01/01/2019	(286,007)	(1,752,257)	(11,996)	(2,050,259)
Currency translation adjustment	(1,820)	(10,111)	(123)	(12,054)
Reclassification right of use assets	0	711	0	711
Depreciation	(17,619)	(125,731)	0	(143,350)
Impairment	0	0	(12,853)	(12,853)
Disposals	41	15,029	0	15,069
As at 31/12/2019	(305,405)	(1,872,359)	(24,972)	(2,202,736)
Carrying amount as at 01/01/2019	308,657	974,810	211,873	1,495,340
Carrying amount as at 31/12/2019	**323,574**	**1,011,211**	**262,378**	**1,597,163**

Development of property, plant and equipment (previous year)

EUR '000

2018	Land and buildings	Technical equipment and machinery, factory and office equipment	Down payments and assets under construction	Total
Cost				
As at 01/01/2018	546,760	2,531,057	203,264	**3,281,082**
Currency translation adjustment	3,104	17,722	3,703	**24,530**
Addition	26,460	105,329	131,173	**262,962**
Disposals	(527)	(22,237)	(211)	**(22,975)**
Reclassifications	18,866	95,195	(114,061)	**0**
As at 31/12/2018	594,664	2,727,067	223,868	**3,545,599**
Accumulated depreciation				
As at 01/01/2018	(269,133)	(1,641,168)	(3,583)	**(1,913,884)**
Currency translation adjustment	(1,024)	(11,894)	210	**(12,707)**
Depreciation	(16,297)	(120,075)	0	**(136,373)**
Impairment	0	(89)	(8,623)	**(8,711)**
Disposals	448	20,969	0	**21,417**
As at 31/12/2018	(286,007)	(1,752,257)	(11,996)	**(2,050,259)**
Carrying amount as at 01/01/2018	277,627	889,889	199,681	**1,367,197**
Carrying amount as at 31/12/2018	**308,657**	**974,810**	**211,873**	**1,495,340**

Depreciation is calculated according to the straight-line method based on the estimated useful lives. The estimated useful lives of the major asset classes 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 plants	10 to 25
Other machinery	4 to 20
Vehicles	4 to 20
Office equipment and other fixtures and fittings	4 to 15
IT hardware	3 to 10

If the cost of certain components of an item of property, plant and equipment – measured against the total cost of the item of property, plant and equipment – is significant, such components are accounted for separately and depreciated on a straight-line basis over their expected useful life, unless in exceptional cases another depreciation method is better suited for the usage pattern. A component is considered to be material when its cost exceeds a certain defined threshold. Costs incurred subsequently to add, replace part of or service an item of property, plant and equipment are capitalized provided that based on the component approach they represent the replacement of parts of an entity and the costs can be reliably measured. The carrying amount of a replaced component is derecognized.

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

Operating leases as a lessor

Operating leases are in place for land and buildings with acquisition cost of EUR 40,098 thousand as at December 31, 2019. The carrying amount of this land and buildings is EUR 11,613 thousand as at December 31, 2019. Depreciation of EUR 885 thousand was recognized on these assets in the 2019 financial year. For further details on rental income from operating leases see note 20.

Capitalization of borrowing costs

Borrowing costs of EUR 1,391 thousand for property, plant and equipment were capitalized in 2019 (2018: EUR 2,569 thousand). The applied cost of debt equaled 1.5 percent (2018: 1.8 percent).

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

Note 20. Right-of-use assets

The Lenzing Group as the lessee

The Lenzing Group has obligations from rental and lease agreements for property, plant and equipment, which are recognized as right-of-use-assets in the consolidated statement of financial position according to IFRS 16 as of January 1, 2019 (see note 2). The corresponding lease liabilities are reported as part of financial liabilities (see note 30).

The following table shows the development of right-of-use assets classified by type of asset:

Development of right-of-use assets EUR '000

2019	Land and buildings	Technical equipment and machinery, factory and office equipment	Total
Carrying amount as at 01/01	16,908	19,332	**36,240**
Addition	2,310	7,395	**9,705**
Disposals	(75)	(101)	**(177)**
Depreciation fiscal year	(2,744)	(5,254)	**(7,998)**
Currency translation adjustment	40	2	**42**
Carrying amount as at 31/12	**16,438**	**21,373**	**37,811**

The carrying amount of assets classified as finance leases in the previous year is shown in the table below:

Carrying amount of leased assets (previous year) EUR '000

2018	Land and buildings	Technical equipment and machinery, factory and office equipment	Total
Cost	8	5,682	**5,690**
Accumulated depreciation	0	(1,677)	**(1,677)**
Carrying amount as at 31/12	**8**	**4,005**	**4,013**

The present value of minimum lease payments related to finance leases as presented in the Annual Report 2018 is as follows:

Minimum lease payments as lessee (finance leases) (previous year) EUR '000

	31/12/2018			
	< 1 year	1–5 years	> 5 years	Total
Total future minimum lease payments	128	319	2,175	**2,622**
Thereof interest component	(10)	(11)	(813)	**(834)**
Total	**118**	**308**	**1,361**	**1,788**

The terms and conditions of the main leases can be summarized as follows:

- **IT equipment:** The leases have a term of up to three years; there are no price adjustment clauses.
- **Motor vehicles:** The leases have a term of up to five years. These agreements do not include an option to acquire the vehicles at the end of the contract term and there are no price adjustment clauses.
- **Rail cars:** The leases have a term of up to twelve years and can be canceled after a minimum period. Some of the leases have price adjustment clauses.
- **Office and storage premises:** The leases have a term of up to five years and some contracts have an indefinite term. Ordinary useful lives were applied to office and storage premises with indefinite useful lives where economic exit barriers exist. These leases do not include an option to purchase the office and storage premises at the end of the contract term. Some of the leases include extension options and price adjustment clauses.
- **Machinery:** The leases have a term of up to five years, and some contracts have an indefinite term. Ordinary useful lives were applied to machines with indefinite useful lives where economic exit barriers exist.
- **Wastewater treatment plant:** The lease has a term of five years. After five years the lease can be extended by three years. The agreement does not include an option to acquire the wastewater treatment plant at the end of the contract term and there are no price adjustment clauses. The Lenzing Group has also concluded finance leases for an industrial primary clarifier and related expansion investments. The ownership of the plant, including the land, can be transferred to Lenzing AG after the agreements expire in exchange for the payment of a transfer fee. This lease has a term of up to 16 years.
- **Small hydropower plants:** The leases include, among others, agreements for the modernization of small hydropower plants under which the lessor agrees to construct, operate and maintain power plants as part of the revitalization. All of the energy generated is purchased by Lenzing AG for a contractually agreed fee, part of which serves to cover the investment costs and is considered a contingent lease payment. The ownership of the power plants will be transferred to Lenzing AG after the agreements expire in exchange for the payment of a transfer fee. This lease has a term of 25 years.

Termination and extension options are taken into account when estimating the expected term of the leases if it is sufficiently certain that they will or will not be exercised. The Lenzing Group estimates that possible future cash outflows from extension options which were not taken into account in the measurement of the lease liability could result in an increase in the lease liability and the related future cash outflows by EUR 2,774 thousand.

The following expenses relating to leases were recognized in the consolidated income statement in the 2019 financial year.

Amounts recognized in profit or loss EUR '000

	2019
Expenses relating to short-term leases	4,876
Expenses relating to variable leases	6,497
Expenses relating to leases of low-value assets	47
Non-lease components	532
Other operating expenses	**11,952**
Interest on lease liabilities = Financing costs	**1,294**

Short-term leases are leases with a term of less than one year. Where contracts have no term, leases are considered short-term leases if both parties have a right to terminate the contract, which can be exercised without the consent of the counterparty and no termination penalties or economic barriers exist. Leases for which only variable lease payments that are not coupled to an index or (interest) rate have been agreed are not capitalized as right-of-use assets.

Expenses relating to variable leases mainly include variable rental payments for warehouses based on monthly storage quantities.

Expenses relating to right-of-use assets lease and financing costs are fully cash-effective and included in cash flow from operating activities. The cash flows incurred in connection with the repayment of lease liabilities are explained in note 34.

The Lenzing Group as the lessor

The future undiscounted minimum lease payments during the non-cancellable term of the leases relate primarily to land and buildings and are as follows, classified by year:

Undiscounted annual minimum lease payments as lessor — **EUR '000**

	31/12/2019	31/12/2018
In the following year	2,766	3,743
In the following 1-2 years	2,471	2,526
In the following 2-3 years	2,471	2,244
In the following 3-4 years	2,471	2,244
In the following 4-5 years	2,400	2,244
Thereafter	5,828	6,882
Total	**18,407**	**19,884**

The most important lease involves land on which a recycling plant is operated. The lease payments are indexed. The lease was concluded for an indefinite term and can be canceled at the earliest as at December 31, 2029, subject to a six-year notice period.

Rental income for the 2019 financial year is shown in note 7 "Other operating income".

The Lenzing Group classifies these leases as operating leases since the main risks and opportunities associated with ownership are retained.

Note 21. Investments accounted for using the equity method

Investments accounted for using the equity method comprise the following:

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

	31/12/2019	31/12/2018
EQUI-Fibres Beteiligungsgesellschaft mbH (EFB)	2,250	1,629
LD Florestal S.A. (LDF)	21,929	6,834
Other associates	4,936	4,810
Other joint ventures	100	93
Total	**29,215**	**13,367**

The major investments accounted for using the equity method include, in particular, the investments in EQUI-Fibres Beteiligungsgesellschaft mbH (EFB), Kelheim, Germany, and LD Florestal S.A. (LDF), Sao Paulo, Brazil, which are assigned to the Segment Fibers. For the strategic importance of the other investments accounted for using the equity method and their relationship with the Lenzing Group see note 39.

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

2019	EFB	Other associates	LDF	Other joint ventures	Total
As at 01/01	1,629	4,810	6,834	94	**13,367**
Capital injection	0	0	15,000	0	**15,000**
Result from remeasurement of investments accounted for using the equity method	(3,442)	0	0	0	**(3,442)**
Share in profit or loss of investments accounted for using the equity method	4,467	40	303	6	**4,817**
Other comprehensive income – remeasurement of defined benefit liability and other	(404)	0	0	0	**(404)**
Other comprehensive income – foreign currency translation differences arising during the year	0	126	(208)	1	**(82)**
Distributions	0	(40)	0	0	**(40)**
As at 31/12	**2,250**	**4,936**	**21,929**	**100**	**29,215**

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

2018	EFB	Other associates	LDF	Other joint ventures	Total
As at 01/01	2,871	5,463	0	88	**8,422**
Addition to carrying amount due to initial consolidation	0	0	7,000	0	**7,000**
Result from remeasurement of investments accounted for using the equity method	(1,339)	(19)	0	0	**(1,357)**
Share in profit or loss of investments accounted for using the equity method	95	(551)	10	5	**(440)**
Other comprehensive income – remeasurement of defined benefit liability and other	2	0	0	0	**2**
Other comprehensive income – foreign currency translation differences arising during the year	0	(43)	(176)	0	**(220)**
Distributions	0	(40)	0	0	**(40)**
As at 31/12	**1,629**	**4,810**	**6,834**	**93**	**13,367**

In the 2018 financial year an impairment loss of EUR 1.339 thousand was recognized on the carrying amount of the investment in EFB. This impairment was necessary due to the reduced earning power and uncertainties, in particular after a fire at the plant in 2018. The recoverable amount was determined on the basis of a discounted cash flow method. The forecasts of free cash flows of EFB were based, in particular, on information, knowledge and internal assumptions about sales prices and quantities expected in the future and production volumes of fibers as well as the necessary related costs (in particular pulp and energy) taking into account the expected market environment and the market positioning.

In 2019 financial year and impairment loss of EUR 3,442 thousand was recognized on the carrying amount of the investment in EFB. This impairment was necessary due to the continued reduced earnings power. The planned/projected cash flows are discounted to their present value using the discounted cash flow method.

Moreover, in the 2018 financial year an impairment of EUR 7,797 thousand was recognized on the outstanding purchase price receivables and non-current loans due from the buyer of EFB (and its subsidiaries) due to the increased credit default risk. In the 2019 financial year, a write-up of EUR 5,548 thousand was recognized due to the annual credit default risk assessment (see note 38, credit risk). The carrying amounts of the outstanding purchase price receivables and non-current loans due from the buyer (and its subsidiaries) total EUR 11,062 thousand as at December 31, 2019 (December 31, 2018: EUR 7,643 thousand) and are reported under financial assets. They carry interest at a normal bank interest rate.

The Lenzing Group holds a lien on the remaining shares of EFB. In addition, there is a non-current earnings-related component of the purchase price, which is dependent on the company's future business development and is reported under other non-current assets at the discounted present value of EUR 4,087 thousand as at December 31, 2019 (December 31, 2018: EUR 1,959). Moreover, the buyer was granted a credit line of up to EUR 10,910 (December 31, 2018: EUR 13,198 thousand), which can be utilized up to December 31, 2025 at the latest in the event of adverse changes in the framework conditions for EFB on the market. The credit line had not been used as at December 31, 2019 and in the previous year as at December 31, 2018.

The Lenzing Group held 20 percent of capital and voting rights as at December 31, 2019 (December 31, 2018: 20 percent). The core business of EFB, which is not publicly listed, is the production and marketing of botanic cellulosic fibers. The relations between the Lenzing Group and this company are described in note 39.

The following table provides summarized financial information on EFB in accordance with IFRS (100 percent):

Summarized financial information on EFB EUR '000

	31/12/2019	31/12/2018
Non-current assets	104,001	76,155
Current assets	67,422	66,828
Equity	48,703	28,386
Non-current liabilities	61,868	56,878
Current liabilities	60,851	57,719
	2019	**2018**
Revenue	115,145	153,743
Earnings before tax (EBT)	31,919	564
Total comprehensive income	20,317	487
Thereof net profit for the year	22,335	476
Thereof other comprehensive income	(2,018)	11

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

	31/12/2019	31/12/2018
Equity	48,703	28,386
Thereof:		
Group's interest (20%; previous year: 20%)	9,741	5,677
Consolidation and other effects	(63)	(63)
Impairment	(7,428)	(3,985)
Carrying amount	**2,250**	**1,629**

The Lenzing Group held 50 percent of the capital and voting rights in LDF as at December 31, 2019 (December 31, 2018: 50 percent). The core business of LDF, which is not publicly listed, is granting rights of use. The relations between the Lenzing Group and this company are described in note 39.

The following table provides summarized financial information on LDF in accordance with IFRS (100 percent):

Summarized financial information on LDF EUR '000

	31/12/2019	31/12/2018
Non-current assets	61,352	1,240
Current assets	19,654	13,310
Equity	43,858	13,668
Non-current liabilities	35,469	0
Current liabilities	1,679	882
	2019	**2018**
Revenue	0	0
Earnings before tax (EBT)	882	19
Total comprehensive income	607	21
Thereof net profit for the year	607	21
Thereof other comprehensive income	0	0

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

Reconciliation of equity to carrying amount of the investment in LDF EUR '000

	31/12/2019	31/12/2018
Equity	43,858	13,668
Thereof:		
Group's interest (50%; previous year: 50%)	21,929	6,834
Carrying amount	**21,929**	**6,834**

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

Note 22. Financial assets

Financial assets comprise the following:

Financial assets		EUR '000
	31/12/2019	31/12/2018
Non-current securities	17,869	20,076
Other equity investments	11,459	7,194
Originated loans	12,475	9,409
Total	**41,803**	**36,679**

Non-current securities are classified as follows:

Non-current securities by asset class		EUR '000
	Market value 31/12/2019	Market value 31/12/2018
Government bonds	3,276	5,886
Other securities and book-entry securities (primarily shares)	14,593	14,190
Total	**17,869**	**20,076**

The Lenzing Group has designated equity instruments of a fair value of EUR 24,877 thousand as measured at "fair value through other comprehensive income" as at December 31, 2019 (December 31, 2018: EUR 19,772 thousand). Non-current securities measured at fair value through other comprehensive income and other equity investments include shares in companies in which a share of less than 20 percent is held. The option to recognize these equity instruments at fair value through other comprehensive income was exercised based on the intent to hold these instruments in the long term. The other equity investments as at December 31, 2019 consist primarily of the EUR 10,947 thousand (December 31, 2018: EUR 6,682 thousand) investment in LP Beteiligungs & Management GmbH, Lenzing. Non-current securities primarily consist of Oberbank ordinary shares amounting to EUR 13,418 thousand (December 31, 2018: EUR 12,578 thousand). In the 2019 financial year there was a dividend payout of LP Beteiligungs & Management GmbH and Oberbank ordinary share, which amounted to EUR 983 thousand (December 31, 2018: EUR 237 thousand).

Note 23. Other non-current assets

Other non-current assets are classified as follows:

Other non-current assets		EUR '000
	31/12/2019	31/12/2018
Other non-current financial assets (particularly from derivatives and other financial receivables)	6,909	2,842
Other non-current non-financial assets (particularly from other taxes)	10,181	1,913
Total	**17,090**	**4,754**

Note 24. Inventories

Inventories include the following components:

Inventories		EUR '000
	31/12/2019	31/12/2018
Raw materials and supplies	210,618	229,527
Work in progress	3,873	3,409
Finished goods and merchandise	177,661	158,125
Advance payments made	3,531	5,426
Total	**395,683**	**396,487**

Raw materials and supplies consist primarily of wood for pulp production, pulp and chemicals for cellulosic fiber production and various incidentals. The cost of raw materials and supplies is calculated using the weighted average cost method. Finished goods and work in progress include cellulosic fibers, sodium sulfate, acetic acid, furfural and products in the Segment Lenzing Technik.

Write-downs totaling EUR 34,897 thousand were recognized to inventories in 2019 (2018: EUR 9,683 thousand). The carrying amount of inventories measured at their net realizable value equaled EUR 121,575 thousand (December 31, 2018: EUR 142,957 thousand). Expenses for inventories, which are included in the cost of material totaled EUR 1,110,200 thousand (2018: EUR 1,147,990 thousand).

Note 25. Trade receivables

Trade receivables comprise the following:

Trade receivables		EUR '000
	31/12/2019	31/12/2018
Trade receivables (gross)	262,604	313,251
Bad debt provisions	(11,168)	(13,605)
Total	**251,436**	**299,645**

All trade receivables are classified as current assets. Additional information on trade receivables is provided in note 36 ("Factoring") and note 38 ("Credit risk").

Note 26. Contracts with customers satisfied over time

Contracts with gross amount due from customers EUR '000

	2019	2018
As at 01/01	14	418
Revenue	5,061	1,418
Down payments received	(54)	(1)
Completed contracts	(4,895)	(1,821)
As at 31/12	**126**	**14**

Contracts with gross amount due to customers EUR '000

	2019	2018
As at 01/01	(190)	(776)
Revenue	591	1,694
Down payments received	(710)	(570)
Completed contracts	(119)	(538)
As at 31/12	**(429)**	**(190)**

The requirements for recognition of revenue over time are given on a regular basis for customer contracts in the Segment Lenzing Technik since the Lenzing Group has no alternative use for customer-specific products and it has an enforceable right to payment for performance completed to date.

If progress can be reliably estimated for customer contracts satisfied over time, revenue and costs are recognized in accordance with the progress made on the reporting dates (percentage-of-completion method). Progress is determined by an input method based on the ratio of contract costs incurred by the reporting date to the estimated total contract costs (cost-to-cost method). Contracts with a gross amount due from customers (contractual assets) are reported under trade receivables (note 25).

Note 27. Other current assets

Other current assets comprise the following:

Other current assets EUR '000

	31/12/2019	31/12/2018
Other current financial assets		
Derivatives not yet settled (open positions)	5,844	2,359
Recharging of maintenance services	8,102	6,060
Receivables from grant commitments	1,880	3,350
Sundry	5,267	8,223
Total	21,093	19,992
Other current non-financial assets		
Receivables from other taxes and duties	72,693	53,551
Advance payments made	2,704	4,593
Emission certificates	14,057	8,111
Prepaid expenses	6,317	4,772
Sundry	566	1,361
Total	96,336	72,389
Total	**117,429**	**92,380**

Note 28. Equity

Share capital and capital reserves

The share capital of Lenzing AG totaled EUR 27,574,071.43 as at December 31, 2019 (December 31, 2018: EUR 27,574,071.43) and is divided into 26,550,000 zero par value shares (December 31, 2018: 26,550,000 shares). The proportion of share capital attributable to one share equals roughly EUR 1.04. Each ordinary share represents an equal interest in capital and conveys the same rights and obligations, above all the right to a resolved dividend and the right to vote at the Annual General Meeting. The issue price of the shares is fully paid in. No other classes of shares have been issued.

The Annual General Meeting on April 12, 2018 authorized the Management Board – while at the same time canceling the resolutions regarding this matter of the Annual General Meeting of April 22, 2015 – subject to the approval of the Supervisory Board, to increase share capital by up to EUR 13,787,034.68 through the issue of up to 13,274,999 zero par value shares ("authorized capital") – also in tranches – in exchange for cash and/or contributions in kind, within five years from entry in the commercial register. This authorized capital was recorded in the commercial register on May 23, 2018.

In addition, a resolution of the Annual General Meeting on April 12, 2018 authorized the Management Board – while at the same time canceling the resolutions regarding this matter of the Annual General Meeting of April 22, 2015 – to issue, subject to the approval of the Supervisory Board, convertible bonds by April 12, 2023 in one or several tranches that grant or provide for the subscription or conversion right or a subscription or conversion obligation for up to 13,274,999 shares of the company ("contingent capital"). They can be serviced through the contingent capital and/or treasury shares.

The Annual General Meeting on April 12, 2018 also authorized the Management Board – while at the same time canceling the resolutions regarding this matter of the Annual General Meeting of April 20, 2016 and subject to the approval of the Supervisory Board – to purchase treasury shares of the company for a period of 30 months starting on the day of the resolution. The treasury shares acquired by the company may not exceed 10 percent of the company's share capital. The equivalent to be paid for the repurchase must be within a range of +/-25 percent of the weighted average closing price of the last 20 stock exchange days prior to the start of the corresponding repurchasing program of the Lenzing share. The Management Board was also authorized to withdraw repurchased treasury shares without any further resolution by the Annual General Meeting subject to the approval of the Supervisory Board (including the authorization of the Supervisory Board to adopt changes to the articles of association resulting from withdrawing the shares), or to resell them and to determine the conditions of sale. This authorization can be exercised in full, in part and in pursuit of one or several objectives by the company, by a subsidiary (Section 189a no. 7 of the Austrian Commercial Code) or by third parties for the company's account. In addition, the Management was authorized for a period of five years from the date of the resolution to adopt the sale of treasury shares in any manner permitted by law other than through the stock exchange or public offer, also excluding shareholders' repurchasing rights (subscription rights), and to determine the conditions of sale.

The Management Board did not utilize the authorizations in place on or up to December 31, 2019 to increase share capital, issue convertible bonds or repurchase treasury shares during the 2019 financial year.

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

Other reserves

Other reserves include all accumulated other comprehensive income and consist of the foreign currency translation reserve, the reserve for financial assets measured at fair value through other comprehensive income, the hedging reserve and actuarial gains/losses.

The amounts attributable to the components of other comprehensive income in 2019 and 2018 include the following:

Other comprehensive income — EUR '000

	2019			2018		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Consolidated subsidiaries	19,016	0	19,016	15,077	0	15,077
Investments accounted for using the equity method	(82)	0	(82)	(220)	0	(220)
Foreign currency translation reserve	**18,934**	**0**	**18,934**	**14,858**	**0**	**14,858**
Financial assets measured at fair value through other comprehensive income	**1,918**	**(480)**	**1,439**	**1,064**	**(266)**	**798**
Consolidated subsidiaries	11,425	(2,492)	8,933	(11,654)	2,655	(8,999)
Hedging reserve	**11,425**	**(2,492)**	**8,933**	**(11,654)**	**2,655**	**(8,999)**
Consolidated subsidiaries	(9,355)	2,322	(7,033)	99	53	152
Investments accounted for using the equity method	(404)	0	(404)	2	0	2
Actuarial gains/losses	**(9,759)**	**2,322**	**(7,437)**	**101**	**53**	**155**
Total	**22,518**	**(649)**	**21,869**	**4,369**	**2,442**	**6,811**

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

Changes in the hedging reserve EUR '000

	2019	2018
Gains/losses recognized in the reporting period from the valuation of cash flow hedges		
From forward foreign exchange contracts	(9,175)	(14,231)
From other derivatives	(179)	0
	(9,353)	**(14,231)**
Reclassification to profit or loss of amounts relating to cash flow hedges		
From forward foreign exchange contracts	20,654	2,577
From other derivatives	124	0
	20,778	**2,577**
Total	**11,425**	**(11,654)**

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

Retained earnings

Retained earnings comprise the following:

Retained earnings EUR '000

	31/12/2019	31/12/2018
Unappropriated revenue reserves of Lenzing AG under Austrian law (Austrian Commercial Code – öUGB)	633,212	488,249
Accumulated profits of Lenzing AG under Austrian law (Austrian Commercial Code – öUGB)	26,550	132,750
Retained earnings of the subsidiaries, including the effect of adjusting the financial statements of Lenzing AG and its subsidiaries from local regulations to IFRS	663,094	711,803
Total (excl. other reserves)	**1,322,856**	**1,332,802**

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

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

Dividends of Lenzing AG resolved and paid

	Total	Number of shares	Dividend per share
	EUR '000		EUR
Dividend for the financial year 2018 resolved at the Annual General Meeting on April 17, 2019 (payment as of April 25, 2019)	132,750	26,550,000	5.00
Dividend for the financial year 2017 resolved at the Annual General Meeting on April 12, 2018 (payment as of April 18, 2018)	132,750	26,550,000	5.00

The Management Board proposes the following use of accumulated profits for 2019 as stated in the annual financial statements of Lenzing AG, which were prepared in accordance with the Austrian Commercial Code:

Proposal on the appropriation of accumulated profits for 2019 EUR '000

Lenzing AG closed the 2019 financial year with profit under Austrian law (öUGB) of	171,513
The allocation to (unappropriated) revenue reserves of	(144,963)
results in accumulated profit of	**26,550**
The Management Board proposes the following appropriation of the accumulated profit:	
Distribution of a EUR 1.00 dividend per share on eligible share capital of EUR 27,574,071.43 or 26,550,000 shares	26,550
Amount carried forward to new account	**0**

The dividend shown in the above proposal is subject to approval by the shareholders at the Annual General Meeting and is therefore still included in equity as at the reporting date.

Non-controlling interests

Non-controlling interests represent the investments held by third parties in consolidated group companies. The group companies with non-controlling interests are listed in note 42 under "Consolidated companies". These are companies in which the Lenzing Group holds a share of less than 100 percent and which are not reported under puttable non-controlling interests.

Non-controlling interests in equity include PT South Pacific Viscose (SPV), Purwakarta, Indonesia, which is assigned to the Segment Fibers. The non-controlling interests in SPV totaled EUR 24,240 thousand as at December 31, 2019 (December 31, 2018: EUR 31,648 thousand). As at December 31, 2019, non-controlling shareholders held 11.92 percent (December 31, 2018: 11.92 percent) of the capital and voting rights in SPV, which is not publicly listed. The core business of SPV is the production and sale of botanic cellulosic fibers.

The following table provides summarized financial information on SPV in accordance with IFRS (100 percent):

Summarized financial information on SPV EUR '000

	31/12/2019	31/12/2018
Non-current assets	249,241	238,349
Current assets	113,950	164,151
Equity	203,352	265,608
Thereof equity attributable to shareholders of Lenzing AG	179,113	233,960
Thereof equity attributable to non-controlling interests	24,240	31,648
Non-current liabilities	40,856	48,966
Current liabilities	118,982	87,926
	2019	**2018**
Revenue	388,759	450,881
Earnings before tax (EBT)	(80,147)	(5,284)
Total comprehensive income	(62,256)	5,381
Thereof net profit for the year	(67,832)	(7,880)
Net profit for the year attributable to shareholders of Lenzing AG	(59,755)	(6,931)
Net profit for the year attributable to non-controlling interests	(8,076)	(949)
Thereof other comprehensive income	5,576	13,261
Other comprehensive income attributable to shareholders of Lenzing AG	4,908	11,680
Other comprehensive income attributable to non-controlling interests	668	1,581
Cash flow from operating activities	17,633	7,777
Cash flow from investing activities	(21,050)	(17,500)
Cash flow from financing activities	(629)	(19,569)
Change in cash and cash equivalents	(4,046)	(29,291)
Dividends paid to non-controlling interests	0	0

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

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

	2019	2018
Lenzing Modi Fibers India Private Limited (2019: +0.02%, 2018: +0.02%)	2	1
Increase (+)/decrease (–) of non-controlling interests in equity	**2**	**1**

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

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

	2019	2018
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit liability	(166)	166
Income tax relating to these components of other comprehensive income	41	(41)
Items that may be reclassified to profit or loss		
Foreign operations – foreign currency translation differences arising during the year	788	1,445
Other comprehensive income (net of tax)	**664**	**1,569**

Note 29. Government grants

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

Government grants of EUR 17,944 thousand focusing primarily on support for research activities were recognized to profit or loss in 2019 (2018: EUR 13,007 thousand). Any conditions attached to the grants were fulfilled and repayment, in full or in part, is therefore considered unlikely.

Government grants also included EUR 11,249 thousand of emission certificates as at December 31, 2019 (December 31, 2018: EU 6,263 thousand). In accordance with Directive 2003/87/EC of the European Parliament and the European Council on a system for trading greenhouse gas emission certificates, a total of 385,579 emission certificates were allocated free of charge to the relevant companies in the Lenzing Group for 2019 through national allocation plans (2018: 394,144 emission certificates).

Emission certificates are capitalized at fair value on the allocation date. The difference between the fair value and the purchase price paid by the company for the emission certificates is recorded under government grants. At the end of each reporting period, a provision is recognized for the certificates used up to that date. The amount of the provision is based on the recognized asset value of the certificates if they are covered by certificates held by the company at this reporting date. If the certificates used exceed the certificates held, the provision is based on the fair value of the certificates (to be purchased subsequently) as at the relevant reporting date. A provision of EUR 989 thousand was recognized as at December 31, 2019 for the insufficient coverage of emission certificates (December 31, 2018: EUR 760 thousand).

Note 30. Financial liabilities

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

Financial liabilities	31/12/2019				31/12/2018			EUR '000
	Currency	Nominal value	Carrying amount	Average effective interest in %	Currency	Nominal value	Carrying amount	Average effective interest in %
Private placements								
Fixed interest	EUR	325,500	324,783	1.6	EUR	144,500	144,274	2.6
Floating rate interest	EUR	235,500	234,931	1.1	EUR	75,500	75,405	1.2
Floating rate interest	USD	45,000	40,218	1.1	USD	0	0	0.0
			599,932				**219,679**	
Bank loans								
Loans:								
Fixed interest	EUR	161,500	161,500	1.2	EUR	54,625	54,625	1.1
Floating rate interest	EUR	86,210	86,210	0.2	EUR	44,148	44,148	0.1
Operating loans[1]:								
Floating rate interest	EUR	0	0	0.0	EUR	72,282	72,282	0.4
Floating rate interest	CNY	360,000	46,051	4.7	CNY	360,000	45,698	4.7
Floating rate interest	USD	0	0	0.0	USD	5,063	4,420	2.9
			293,761				**221,173**	
Lease liabilities								
Fixed interest	EUR	36,337	36,337	3.8	EUR	1,788	1,788	4.0
			36,337				**1,788**	
Loans from other lenders								
Fixed interest	EUR	8,330	8,330	0.8	EUR	7,794	7,794	0.8
Fixed and floating rate interest	EUR	15,151	15,151	0.7	EUR	19,426	19,426	0.6
Floating rate interest	USD	3,195	2,855	3.7	USD	3,055	2,667	3.7
Floating rate interest	BRL	113,839	25,226	3.9	BRL	5,511	1,240	6.0
			51,562				**31,128**	
Total			**981,591**				**473,767**	
Thereof current			129,606				166,197	
Thereof non-current			851,986				307,570	

1) Revolving credit agreements and overdrafts

In the 2012 financial year, the Lenzing Group issued private placements with an issue volume of EUR 200,000 thousand. The terms cover four and seven years with fixed and floating interest rates, respectively, as well as a term of ten years with fixed interest. The average term is approximately six years. The Lenzing Group repaid EUR 40,500 thousand of the existing private placements as scheduled in 2016. In the 2015 financial year, the Lenzing Group reached an agreement to refinance its private placements with a corresponding volume increase. Existing private placements of EUR 89,500 thousand were terminated and re-issued at extended terms. Additional private placements of EUR 60,500 thousand were also issued. Overall these transactions involved the issue of private placements totaling EUR 150,000 thousand, which have an average term of seven years. In the 2019 financial year EUR 34,000 thousand were repaid.

In the 2013 financial year, the Lenzing Group issued further private placements with an issue volume of EUR 29,000 thousand and a five-year term with fixed interest. The Lenzing Group repaid these private placements according to plan in December 2018.

In the 2019 financial year, the Lenzing Group issued further private placements with an issue volume of EUR 375.000 thousand and USD 45.000 thousand. A term of 5 to 15 years with fixed and floating interest rates was agreed.

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

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

The financing of the purchase price for the investment in Lenzing Biocel Paskov a.s. and of expenditures on fixed assets was repaid during the 2018 financial year. Therefore, the shares are no longer pledged as of December 31, 2018 and December 31, 2019.

Note 31. Deferred taxes (deferred tax assets and liabilities) and current taxes

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

Deferred tax assets EUR '000

	31/12/2019	31/12/2018
Intangible assets and property, plant and equipment	5,505	6,279
Financial assets	5,591	5,282
Inventories	16,965	8,061
Other assets	1,295	6,234
Provisions	18,608	16,926
Investment grants	240	275
Lease liabilities	7,774	0
Other liabilities	4,284	4,727
Loss carryforwards	20,872	3,557
Gross deferred tax assets – before valuation adjustment	**81,132**	**51,342**
Valuation adjustment to deferred tax assets	(29,387)	(14,367)
Thereof relating to tax loss carryforwards	(18,015)	(3,404)
Gross deferred tax assets	**51,745**	**36,974**
Offsettable against deferred tax liabilities	(44,793)	(31,894)
Net deferred tax assets	**6,953**	**5,080**

Deferred tax liabilities EUR '000

	31/12/2019	31/12/2018
Intangible assets and property, plant and equipment	61,554	71,373
Right-of-use assets	8,605	0
Financial assets	5,657	2,512
Inventories	603	0
Other assets	2,174	1,295
Special depreciation/amortization for tax purposes	4,096	4,837
Provisions	1,514	19
Investment grants	497	487
Other liabilities	1,976	1,745
Gross deferred tax liabilities	**86,676**	**82,268**
Offsettable against deferred tax assets	(44,793)	(31,894)
Net deferred tax liabilities	**41,883**	**50,373**

Information on tax credits is provided in note 16.

Of the total gross deferred tax assets, EUR 18,316 thousand (December 31, 2018: EUR 15,803 thousand) are due within one year. Of the total gross deferred tax liabilities, EUR 4,221 thousand (December 31, 2018: EUR 1,318 thousand) are due within one year. The remaining amounts are due in more than one year.

Deferred taxes developed as follows:

Development of deferred taxes EUR '000

	2019	2018
As at 01/01	(45,294)	(48,694)
Recognized in profit or loss	11,798	3,392
Recognized in other comprehensive income	(649)	2,442
First-time adoption of IFRS 9 (financial instruments)	(0)	(1,343)
Currency translation adjustment	(786)	(1,090)
As at 31/12	**(34,931)**	**(45,294)**

The Group held tax loss carryforwards of EUR 83,122 thousand (December 31, 2018: EUR 14,696 thousand). The existing tax loss carryforwards can be utilized as follows:

Loss carryforwards (assessment basis) EUR '000

	31/12/2019	31/12/2018
Total	**83,122**	**14,696**
Thereof capitalized loss carryforwards	11,589	925
Thereof non-capitalized loss carryforwards	71,533	13,771
Possible expiration of non-capitalized loss carryforwards		
Within 1 year	1,236	7,549
Within 2 years	0	1,227
Within 3 years	160	0
Within 4 years	3,467	143
Within 5 years or longer	63,329	4,392
Unlimited carryforward	3,340	459

Net deferred tax assets of EUR 6,953 thousand were recognized as at December 31, 2019 (December 31, 2018: EUR 5,080 thousand), including EUR 27 thousand (December 31, 2018: EUR 33 thousand) in group companies that recorded a loss in 2018 or 2017.

Certain loss carryforwards were not capitalized because their usability is restricted. If all tax loss carryforwards could be utilized in full, the deferred tax assets on loss carryforwards would total EUR 20,872 thousand (December 31, 2018: EUR 3,557 thousand) instead of EUR 2,856 thousand (December 31, 2018: EUR 153 thousand).

The financial assets and other assets shown under deferred tax assets in the above table include amounts for outstanding partial write-downs to investments in accordance with Section 12 Para. 3 no. 2 of the Austrian Corporation Tax Act ("Siebentelabschreibung", the partial write-downs of investments over a period of seven years for tax purposes) corresponding to a measurement base of EUR 22,892 thousand (December 31, 2018: EUR 27,418 thousand). Partial write-downs of EUR 4,526 thousand were utilized for tax purposes in 2019 (2018: EUR 1,410 thousand).

Deferred tax liabilities were not recognized for temporary differences with a measurement base of EUR 550,247 thousand (December 31, 2018: EUR 549,784 thousand) in connection with investments in subsidiaries, joint ventures and associates and the related proportional share of net assets held by group companies because these differences are not expected to reverse in the foreseeable future.

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

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

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

The tax allocation to be paid by Lenzing AG is also reduced by any current losses/loss carryforwards caused by the group parent that can be offset against positive earnings of Lenzing AG's tax group in the assessment year. The tax allocation is reduced by 25 percent (2018: 25 percent) of the corporate tax rate (i.e. currently 6.25 percent; 2018: 6.25 percent) applicable to the current losses/loss carryforwards recorded by the head of the tax group that are offset against positive earnings in an assessment year for the head of the tax group. Tax losses recorded by Lenzing AG and the participating subsidiaries are kept on record and offset against future tax gains. An equalization payment is made as compensation for any losses that are not offset when the contract is terminated.

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

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

Note 32. Provisions

The Lenzing Group's provisions are classified as follows:

Provisions **EUR '000**

	Total		Thereof current		Thereof non-current	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Provisions for pensions and similar obligations						
Pensions and severance payments	110,757	103,395	6,819	7,428	103,939	95,967
Jubilee benefits	18,117	15,047	1,680	1,135	16,438	13,912
	128,875	**118,442**	**8,498**	**8,563**	**120,376**	**109,879**
Other provisions						
Guarantees and warranties	356	627	356	627	0	0
Anticipated losses and other risks	8,874	11,384	996	1,888	7,878	9,496
Emission certificates	4,058	2,608	4,058	2,608	0	0
Sundry	466	6,101	466	101	0	6,000
	13,755	**20,721**	**5,877**	5,225	**7,878**	**15,496**
Accruals						
Personnel expenses (non-financial)	50,113	62,163	49,575	61,054	538	1,109
Sundry (financial)	23,441	33,018	23,441	33,018	0	0
	73,554	**95,181**	**73,016**	**94,072**	538	**1,109**
Total	**216,184**	**234,344**	**87,392**	**107,860**	**128,792**	**126,484**

Provisions for pensions and similar obligations

Pensions and severance payments

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

Defined benefit plans (for pensions and severance payments)

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

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

The Lenzing Group also had a pension plan in Hong Kong. This defined benefit pension plan applied to employees who joined the group before January 1, 2000 and decided to remain in the plan. It was financed chiefly by employer contributions to an external pension fund. The amount of the employer's contributions was 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. On occurrence of the insured event the respective claims of all remaining beneficiaries were settled in 2018 and the plan was terminated.

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

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

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

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

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

The objectives of the investment policy are to create an optimal composition of plan assets and to ensure sufficient coverage for the existing claims of participating employees. The investment strategies (asset allocations) for the plan assets are contractually regulated. A reinsurance policy was concluded for part of the claims from the Austrian pension plan. It is reported as plan asset in the amount of EUR 2,863 thousand (December 31, 2018: EUR 2,999 thousand). This policy is a conventional life insurance policy which invests primarily in debt instruments that reflect the maturity profile of the underlying claims and are intended to maintain a high degree of investment security. The Lenzing Group makes no further contributions to this insurance policy.

The fair values of the abovementioned equity and debt instruments were based on price quotations on an active market. The fair value of the insurance policy is not determined on an active market, but corresponds to the reported coverage capital. The plan assets do not include any financial instruments issued by or assets used by the Lenzing Group. The fair value of cash and cash equivalents corresponded to the nominal value as at the reporting date. The actual return on plan assets totaled EUR 148 thousand in 2019 (2018: EUR 238 thousand). The net interest expense from the defined benefit plans (expenses from the accrued interest on the obligations and the return on plan assets) is reported under personnel expenses.

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

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

31/12/2019	Discount rate	Salary increase	Pension increase	Staff turnover deductions
Austria – pensions	0.9	2.5	0.0-3.0	0.0
Austria – severance payments	1.0	2.5	N/A	0.0
Indonesia	7.0	8.0	N/A	1.0-7.5
Czech Republic	0.9	3.6	N/A	0.8
31/12/2018				
Austria – pensions	1.7	2.5	0.0-3.0	0.0
Austria – severance payments	1.7	2.5	N/A	0.0
Indonesia	8.0	8.0	N/A	1.0-7.5
Czech Republic	1.7	3.6	N/A	0.7

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

The parameters used to calculate the defined benefit pension plans in Austria included the biometric data from AVÖ 2018 P – the calculation base for pension insurance for salaried employees

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

- Indonesia: Tabel Mortalita Indonesia (TMI 2011)
- Czech Republic: AVÖ 2018-P
- Other: No biometric assumptions were made because of the low number of beneficiaries.

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

Development of defined benefit plans EUR '000

	Present value of pension and severance payment obligation (DBO)		Fair value of plan assets		Carrying amounts of defined benefit pension and severance plans	
	2019	2018	2019	2018	2019	2018
As at 01/01	106,394	109,867	2,999	4,478	103,395	105,389
Service cost						
Current service cost	3,686	3,631	0	0	3,686	3,631
Past service cost	(215)	0	0	0	(215)	0
Net interest	2,638	2,343	49	57	2,589	2,286
Administrative and other costs	0	0	0	(1)	0	1
Income and expenses from defined benefit plans recognized on the income statement	**6,108**	**5,974**	**49**	**57**	**6,060**	**5,917**
Remeasurement during the reporting period						
On the basis of demographic assumptions	0	1,018	0	0	0	1,018
On the basis of financial assumptions	7,240	(2,322)	0	0	7,240	(2,322)
On the basis of experience adjustments	2,214	1,400	0	0	2,214	1,400
On the basis of income from plan assets, excl. amounts included in interest income	0	0	99	195	(99)	(195)
Remeasurement of defined benefit plans included in other comprehensive income	**9,454**	**96**	**99**	**195**	**9,355**	**(99)**
Cash flows						
Payments made from the plan	(312)	(1,608)	(283)	(1,608)	(29)	0
Direct payments and contributions by the employer	(8,982)	(7,642)	0	15	(8,982)	(7,657)
Excess plan assets	0	0	0	(153)	0	153
Currency translation adjustment	959	(293)	0	15	959	(308)
Other reconciliation items	**(8,336)**	**(9,543)**	**(283)**	**(1,731)**	**(8,053)**	**(7,812)**
As at 31/12	**113,621**	**106,394**	**2,863**	**2,999**	**110,757**	**103,395**
Thereof pensions in Austria	26,083	24,786	2,863	2,999	23,220	21,787
Thereof severance payments in Austria	67,129	64,868	0	0	67,129	64,868
Thereof pensions and severance payments in other countries	20,408	16,740	0	0	20,408	16,740

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

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

Sensitivity analysis of the defined benefit pension and severance payment obligations

31/12/2019	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	10,874	(9,351)
Salary increase	1.0	(7,152)	8,123
Pension increase	1.0	(2,010)	2,297

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

31/12/2018	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	9,976	(8,603)
Salary increase	1.0	(6,552)	7,426
Pension increase	1.0	(1,929)	2,202

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

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

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

	31/12/2019	31/12/2018
Austria – pensions	9	9
Austria – severance payments	9-12	9-12
Indonesia	9	8
Czech Republic	10	10

Defined contribution plans (for pensions and severance payments)

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

The expenses for defined contribution plans are as follows:

Expenses for defined contribution plans EUR '000

	2019	2018
Austria – pensions	1,751	1,615
Austria – severance payments	2,280	2,009
Other countries	3,355	3,079
Total	**7,386**	**6,703**

Provisions for jubilee benefits

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

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

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

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

31/12/2019	Discount rate	Salary increase	Staff turnover deductions
Austria	1.1	2.5	0.7-3.5
Czech Republic	0.4	3.6	0.8
31/12/2018			
Austria	1.8	2.5	1.2-4.3
Czech Republic	1.0	3.6	0.7

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

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

	2019	2018
As at 01/01	15,047	14,588
Service cost		
Current service cost	857	803
Net interest	262	226
Remeasurement during the reporting period		
On the basis of demographic assumptions	1,459	268
On the basis of financial assumptions	1,345	(302)
On the basis of experience adjustments	635	510
Income and expenses from defined benefit plans recognized on the income statement	**4,557**	**1,506**
Cash flows		
Direct payments by employer	(1,487)	(1,046)
Currency translation adjustment	1	0
Other reconciliation items	**(1,487)**	**(1,047)**
As at 31/12	**18,117**	**15,047**

Other provisions and accruals

Other provisions and accruals developed as follows:

Development of other provisions and accruals

EUR '000

2019	As at 01/01	Currency translation adjustment	Utilization	Reversal	Addition	As at 31/12	Thereof current	Thereof non-current
Other provisions								
Guarantees and warranties	627	0	(16)	(319)	64	**356**	356	0
Anticipated losses and other risks	11,384	0	(1,148)	(1,617)	254[1]	**8,874**	996	7,878
Emission certificates	2,608	1	(2,609)	0	4,058	**4,058**	4,058	0
Sundry	6,101	10	0	(6,000)	355	**466**	466	0
	20,721	**10**	**(3,773)**	**(7,935)**	**4,731**	**13,755**	**5,877**	**7,878**
Accruals								
Personnel expenses (non-financial)	62,163	229	(58,617)	(337)	46,675	**50,113**	49,575	538
Sundry (financial)	33,018	435	(25,474)	(4,009)	19,472	**23,441**	23,441	0
	95,181	**664**	**(84,091)**	**(4,346)**	**66,146**	**73,554**	**73,016**	**538**
Total	**115,902**	**674**	**(87,864)**	**(12,281)**	**70,877**	**87,309**	**78,893**	**8,416**

Development of other provisions and accruals (previous year)

EUR '000

2018	As at 01/01	Currency translation adjustment	Utilization	Reversal	Addition	As at 31/12	Thereof current	Thereof non-current
Other provisions								
Guarantees and warranties	664	0	(42)	(320)	325	**627**	627	0
Anticipated losses and other risks	12,729	0	(1,575)	(278)	508[1]	**11,384**	1,888	9,496
Emission certificates	1,938	0	(1,938)	0	2,609	**2,608**	2,608	0
Sundry	7,374	3	(922)	(392)	39	**6,101**	101	6,000
	22,705	**3**	**(4,476)**	**(991)**	**3,481**	**20,721**	**5,225**	**15,496**
Accruals								
Personnel expenses (non-financial)	58,211	52	(53,485)	(796)	58,182	**62,163**	61,054	1,109
Sundry (financial)	26,599	354	(16,165)	(4,328)	26,558	**33,018**	33,018	0
	84,809	**406**	**(69,649)**	**(5,124)**	**84,740**	**95,181**	**94,072**	**1,109**
Total	**107,515**	**408**	**(74,126)**	**(6,115)**	**88,220**	**115,902**	**99,297**	**16,605**

1) Incl. accrued interest EUR 254 thousand (2018: EUR 97 thousand).

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

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

Miscellaneous other provisions related primarily to obligations for legal disputes in 2018. Legal disputes included, in particular, a provision of EUR 6,000 thousand for legal proceedings initiated by the Lenzing Group against patent infringements, which the parties ended during the 2019 financial year.

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

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

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

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

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

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

	31/12/2019	31/12/2018
In the 2nd year	994	1,081
In the 3rd to 5th year	2,966	3,204
In the 6th to 10th year	3,919	5,211
Thereafter	0	0
Total	**7,878**	**9,496**

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

Note 33. Other liabilities and trade payables

Other liabilities consist of the following:

Other liabilities EUR '000

	31/12/2019	31/12/2018
Other non-current financial liabilities (particularly from derivatives)	3,614	731
Other non-current non-financial liabilities (particularly partial retirement obligations)	1,362	3,427
Total other non-current liabilities	**4,977**	**4,158**
Other current financial liabilities		
Derivatives not yet settled (open positions)	4,438	11,573
Sundry	3,300	2,819
	7,738	**14,391**
Other current non-financial liabilities		
Liabilities from other taxes	3,940	7,475
Wage and salary liabilities	6,210	6,160
Social security liabilities	6,208	5,792
Down payments received	16,834	9,811
Deferred income and other	4,818	3,260
	38,010	**32,497**
Total other current liabilities	**45,748**	**46,888**

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

Suppliers of the Lenzing Group finance their trade receivables from the Lenzing Group with reverse factoring agreements. These suppliers can commission their banks to forward payment for the receivables at an earlier point in time. The present value test indicates that these agreements do not significantly change the contract terms. The agreements do not lead to the reclassification of the involved trade payables to another class of liability under civil law or IFRS regulations from the Lenzing Group's perspective. Consequently, there are no changes to the presentation on the consolidated statement of financial position (under trade payables) or the consolidated statement of cash flows (under cash flow from operating activities). The potentially affected trade payables totaled EUR 100,618 thousand as at December 31, 2019 (December 31, 2018: EUR 133,909 thousand).

Notes to the Consolidated Statement of Cash Flows

Note 34. Disclosures on the Consolidated Statement of Cash Flows

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

Other non-cash income/expenses in the 2019 financial year includes impairment losses to inventories of EUR 34,897 thousand (2018: EUR 9,683 thousand) as well as write-ups and impairment losses to financial assets and other non-current assets of EUR minus 5,487 thousand (2018: EUR plus 8,260 thousand). Other non-cash income/expenses also contain unrealized net exchange rate gains/losses and measurement effects from receivables. In the previous year the allocation of profit and loss to and the measurement of puttable non-controlling interests totaling EUR 22,276 thousand were also included.

Non-cash transactions from the acquisition of intangible assets and property, plant and equipment are not included in cash flow from investing activities for the current period. These transactions essentially involve outstanding payments to suppliers of EUR 15,616 thousand (2018: EUR 8,571 thousand).

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

The acquisition of puttable non-controlling interests by the Lenzing Group in 2018 resulted in payments of EUR 40,620 thousand to the shareholders of the puttable non-controlling interests, which are included in the cash flow from financing activities (see also note 3).

Cash and cash equivalents also include bank accounts with negative balances in cases where netting agreements have been concluded (see note 36).

Reconciliation of financial liabilities EUR '000

2019		Private placements	Bank loans	Loans from other lenders	Lease liabilities	Subtotal other financial liabilities	Total
As at 01/01		219,679	221,173	31,128	1,788	254,089	473,767
Cash flows	Increase in financial liabilities	414,479	194,881	27,367	0	222,249	636,728
	Repayment of financial liabilities	(34,000)	(122,817)	(6,912)	(8,631)	(138,360)	(172,360)
Non-cash changes	Currency translation adjustment	(344)	524	(148)	65	441	97
	Discounting/accrued interest	118	0	126	1,285	1,411	1,529
	Additions to lease liabilities	0	0	0	42,199	42,199	42,199
	Other changes	0	0	0	(367)	(367)	(367)
As at 31/12		**599,932**	**293,761**	**51,562**	**36,337**	**381,659**	**981,591**

Reconciliation of financial liabilities (previous year) EUR '000

2018		Private placements	Bank loans	Loans from other lenders	Lease liabilities	Subtotal other financial liabilities	Total
As at 01/01		248,568	97,707	34,473	1,852	134,031	382,599
Cash flows	Increase in financial liabilities	0	186,037	2,434	0	188,471	188,471
	Repayment of financial liabilities	(29,000)	(62,475)	(5,995)	(116)	(68,586)	(97,586)
Non-cash changes	Currency translation adjustment	0	(244)	106	0	(137)	(137)
	Discounting/accrued interest	111	148	110	52	310	421
	Other changes	0	0	0	0	0	0
As at 31/12		**219,679**	**221,173**	**31,128**	**1,788**	**254,089**	**473,767**

Notes on Risk Management

Note 35. Capital risk management

General information

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

The equity management strategy followed by the Lenzing Group is designed to ensure that Lenzing AG and the other group companies have an adequate equity base to meet local requirements. A couple of loan agreements with banks also include financial covenants, above all concerning the level of equity, the ratio of net financial debt to EBITDA and other financial indicators or financial criteria for the Group or individual or aggregated group companies. A breach of these financial covenants would allow the banks to demand early repayment of the financial liabilities in certain cases. These financial covenants are regularly monitored by the Global Treasury department and are considered in the determination of distributions by the involved group companies. All related capital requirements were met during the 2019 financial year.

Management uses an adjusted equity ratio for internal control purposes. Adjusted equity is calculated in accordance with IFRS and comprises equity as well as investment grants less the related deferred taxes. The adjusted equity ratio (= adjusted equity in relation to total assets) equaled 50.0 percent as at December 31, 2019 (December 31, 2018: 59.0 percent).

Adjusted equity is calculated as follows:

Adjusted equity EUR '000

	31/12/2019	31/12/2018
Equity	1,537,860	1,533,925
+ Government grants	28,500	25,325
- Proportional share of deferred taxes on government grants	(7,061)	(6,250)
Total	**1,559,298**	**1,553,000**

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

Net financial debt

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

Interest-bearing financial liabilities are classified as follows:

Interest-bearing financial liabilities EUR '000

	31/12/2019	31/12/2018
Non-current financial liabilities	851,986	307,570
Current financial liabilities	129,606	166,197
Total	**981,591**	**473,767**

Liquid assets consist of the following:

Liquid assets EUR '000

	31/12/2019	31/12/2018
Cash and cash equivalents	571,479	243,865
Liquid bills of exchange (in trade receivables)	9,504	10,530
Total	**580,983**	**254,395**

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

Net financial debt (absolute) EUR '000

	31/12/2019	31/12/2018
Interest-bearing financial liabilities	981,591	473,767
- Liquid assets	(580,983)	(254,395)
Total	**400,609**	**219,373**

Net financial debt in relation to EBITDA EUR '000

	31/12/2019	31/12/2018
EBITDA	326,908	381,980
Net financial debt / EBITDA	1.2	0.6

Note 36. Disclosures on financial instruments

Carrying amounts, fair values, measurement categories and measurement methods

The following table shows the carrying amounts and fair values of the financial assets and financial liabilities for each class and each IFRS 9 category and reconciles this information to the appropriate line items on the statement of financial position. Other receivables (non-current and current) and other liabilities (non-current and current) as reported on the statement of financial position include financial instruments as well as non-financial assets and liabilities. Therefore, the “no financial instrument” column allows for a complete reconciliation with the line items on the statement of financial position. Lease liabilities which are to be considered financial liabilities but cannot be allocated to a measurement category in accordance with IFRS 9 are also reported in this column.

Carrying amounts, category, fair value and fair value hierarchy of financial instruments

EUR '000

Financial assets as at 31/12/2019	Carrying amount							Fair value	
	At amortized cost	At fair value through profit or loss	At fair value through other comprehensive income			No financial instrument	Total	Fair value	Fair value hierarchy
			Debt instruments	Equity instruments	Cash flow hedges				
Originated loans	12,475						**12,475**	12,475	[1]
Non-current securities		757	3,694	13,418			**17,869**	17,869	Level 1
Other equity investments				11,459			**11,459**	11,459	Level 3
Financial assets	**12,475**	**757**	**3,694**	**24,877**	**0**	**0**	**41,803**	**41,803**	
Trade receivables	**251,436**	**0**	**0**	**0**	**0**	**0**	**251,436**	**251,436**	[1]
Derivatives with a positive fair value (cash flow hedges)					7,159		**7,159**	7,159	Level 2
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)		655					**655**	655	Level 2
Other	16,101	4,087				106,517	**126,706**	126,706	Level 3
Other assets (current and non-current)	**16,101**	**4,742**	**0**	**0**	**7,159**	**106,517**	**134,519**	**134,519**	
Cash and cash equivalents	**571,479**	**0**	**0**	**0**	**0**	**0**	**571,479**	**571,479**	[1]
Total	**851,491**	**5,499**	**3,694**	**24,877**	**7,159**	**106,517**	**999,237**	**999,237**	

Financial liabilities as at 31/12/2019	Carrying amount					Fair value	
	At amortized cost	At fair value through profit or loss	At fair value through other comprehen-sive income	No financial instrument	Total	Fair value	Fair value hierarchy
			Cash flow hedges				
Private placements	599,932				**599,932**	605,806	Level 3
Bank loans	293,761				**293,761**	298,396	Level 3
Loans from other lenders	51,562				**51,562**	51,748	Level 3
Lease liabilities				36,337	**36,337**	36,337	[1]
Financial liabilities	**945,254**	**0**	**0**	**36,337**	**981,591**	**992,288**	
Trade payables	**243,589**	**0**	**0**	**0**	**243,589**	**243,589**	[1]
Provisions (current)	**23,441**	**0**	**0**	**63,951**	**87,392**	**87,392**	[1]
Derivatives with a negative fair value (cash flow hedges)			1,943		**1,943**	1,943	Level 2
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)		3,083			**3,083**	3,083	Level 2
Derivatives with a negative fair value (fair value hedges)			3,026		**3,026**	3,026	Level 3
Other	3,300			39,372	**42,672**	42,672	[1]
Other liabilities (current and non-current)	**3,300**	**3,083**	**4,969**	**39,372**	**50,724**	**50,724**	
Total	**1,215,585**	**3,083**	**4,969**	**139,660**	**1,363,296**	**1,373,993**	

1) The carrying amount approximates fair value.

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

EUR '000

Financial assets as at 31/12/2018	Carrying amount: At amortized cost	Carrying amount: At fair value through profit or loss	Carrying amount: At fair value through other comprehensive income – Debt instruments	Carrying amount: At fair value through other comprehensive income – Equity instruments	Carrying amount: At fair value through other comprehensive income – Cash flow hedges	Carrying amount: No financial instrument	Carrying amount: Total	Fair value: Fair value	Fair value: Fair value hierarchy
Originated loans	9,409						**9,409**	9,409	[1]
Non-current securities		1,290	6,208	12,578			**20,076**	20,076	Level 1
Other equity investments				7,194			**7,194**	7,194	Level 3
Financial assets	**9,409**	**1,290**	**6,208**	**19,772**	**0**	**0**	**36,679**	**36,679**	
Trade receivables	**299,645**	**0**	**0**	**0**	**0**	**0**	**299,645**	**299,645**	[1]
Derivatives with a positive fair value (cash flow hedges)					1,573		**1,573**	1,573	Level 2
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)		886					**886**	886	Level 2
Other	18,416	1,959				74,302	**94,676**	94,676	Level 3
Other assets (current and non-current)	**18,416**	**2,845**	**0**	**0**	**1,573**	**74,302**	**97,135**	**97,135**	
Cash and cash equivalents	**243,865**	**0**	**0**	**0**	**0**	**0**	**243,865**	**243,865**	[1]
Total	**571,335**	**4,135**	**6,208**	**19,772**	**1,573**	**74,302**	**677,324**	**677,324**	

Financial liabilities as at 31/12/2018	Carrying amount: At amortized cost	Carrying amount: At fair value through profit or loss	Carrying amount: At fair value through other comprehensive income – Cash flow hedges	Carrying amount: No financial instrument	Carrying amount: Total	Fair value: Fair value	Fair value: Fair value hierarchy
Private placements	219,679				**219,679**	227,129	Level 3
Bank loans	221,173				**221,173**	221,694	Level 3
Loans from other lenders	31,128				**31,128**	31,248	Level 3
Lease liabilities				1,788	**1,788**	1,788	[1]
Financial liabilities	**471,980**	**0**	**0**	**1,788**	**473,767**	**481,858**	
Trade payables	**251,721**	**0**	**0**	**0**	**251,721**	**251,721**	[1]
Provisions (current)	**33,018**	**0**	**0**	**74,842**	**107,860**	**107,860**	[1]
Derivatives with a negative fair value (cash flow hedges)			7,602		**7,602**	7,602	Level 2
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)		4,702			**4,702**	4,702	Level 2
Derivatives with a negative fair value (fair value hedges)			0		**0**		Level 3
Other	2,819			35,924	**38,743**	38,743	[1]
Other liabilities (current and non-current)	**2,819**	**4,702**	**7,602**	**35,924**	**51,046**	**51,046**	
Total	**759,537**	**4,702**	**7,602**	**112,554**	**884,395**	**892,486**	

1) The carrying amount approximates fair value.

Depending on the classification/measurement category, financial instruments are subsequently measured at (amortized) cost or fair value. The Lenzing Group uses the following measurement categories: "at amortized cost", "at fair value through profit or loss" and "at fair value directly in equity". The measurement category "at fair value through profit or loss" is solely used for financial assets that are mandatorily measured at fair value.

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

The measurement of financial instruments is monitored and reviewed by the Lenzing Group. The necessary market data are validated based on the four-eyes principle.

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

The fair value of purchased bonds is derived from the respective current market prices and fluctuates, in particular, with changes in market interest rates and the credit standing of the issuers. The fair value of shares is derived from the current stock exchange prices. These securities are assigned to the category "at fair value directly in equity".

The fair value of investment funds is derived from the latest calculated value. These securities are assigned to the category "at fair value through profit or loss".

The measurement of equity investments including derivatives designated as a hedge (fair value hedge) is classified "at fair value through other comprehensive income". The fair value is determined on the basis of a market approach and is to be categorized in level 3 of the fair value hierarchy. The measurement model is based on market multiples derived from listed benchmark companies and adjusted for a discount of 25 percent for the size and marketability of the equity investments. The determined fair value of the equity investment would increase (decrease) in particular if the planned EBITDA or the market multiple increased (decreased). The determined fair value would increase (decrease) if the discount on the market multiple decreased (increased). The determined fair value of the derivative has an inverse correlation to the abovementioned parameters. The adjusted market multiples amount to roughly 7.1 and 8.1 as at December 31, 2019 (December 31, 2018: 5.4 and 5.8).

The following tables show the development of the fair values of the equity investments and the associated derivatives of level 3:

Reconciliation of level 3 fair values of equity investments and related derivatives — **EUR '000**

2019	Equity investments	Derivatives with a negative fair value (fair value hedges)
As at 01/01	7,194	0
Financial assets measured at fair value through other comprehensive income (equity instruments) – net fair value gain/loss on remeasurement recognized during the year	4,265	(3,026)
As at 31/12	**11,459**	**(3,026)**

Reconciliation of level 3 fair values of equity investments and related derivatives (previous year) — **EUR '000**

2018	Equity investments	Derivatives with a negative fair value (fair value hedges)
As at 01/01	10,532	(3,387)
Financial assets measured at fair value through other comprehensive income (equity instruments) – net fair value gain/loss on remeasurement recognized during the year	(3,339)	3,387
As at 31/12	**7,194**	**0**

A change in key input factors which cannot be observed on the market would have the following effects on the measurement of the equity instruments and the associated derivatives:

Sensitivity analysis of level 3 input factors for equity investments and related derivatives as at 31/12/2019 — **EUR '000**

	Other comprehensive income (net of tax)					
	Increase			Decrease		
	Equity investments		Total	Equity investments		Total
EBITDA (+/-5%)	703	(151)	**552**	(703)	151	**(552)**
Market multiple (+/-1)	1,379	(1,379)	**0**	(1,379)	1,379	**0**
Change discount to market multiple (+/-10%)	(469)	469	**0**	469	(469)	**0**

Sensitivity analysis of level 3 input factors for equity investments and related derivatives as at 31/12/2018 (previous year) **EUR '000**

	Other comprehensive income (net of tax)					
	Increase			Decrease		
	Equity investments	Derivatives with a negative fair value (fair value hedges)	Total	Equity investments	Derivatives with a negative fair value (fair value hedges)	Total
EBITDA (+/-5%)	496	0	**496**	(496)	0	**(496)**
Market multiple (+/-1)	1,324	(383)	**942**	(1,324)	383	**(942)**
Change discount to market multiple (+/-10%)	(331)	0	**(331)**	331	0	**331**

Other financial assets from earn-out agreements are classified "at fair value through profit or loss". The fair value of these other financial assets is determined based on an income approach. It is to be categorized in level 3 of the fair value hierarchy. The measurement model is based on the planned EBITDA, the weighted average cost of capital (WACC) after tax and the repayment terms.

The determined fair value would increase (decrease) in particular if EBITDA increased (decreased). The determined fair value would decrease (increase) if the WACC after tax increased (decreased). The determined fair value would increase if the repayment were to be made two years earlier.

Reconciliation of level 3 fair values of other financial assets **EUR '000**

	2019	2018
As at 01/01	1,959	5,756
Gain/loss included in financial result	2,128	(3,656)
Repayment	0	(141)
As at 31/12	**4,087**	**1,959**

A change in key input factors which cannot be observed on the market would have the following effects on other financial assets:

Sensitivity analysis of level 3 input factors for other financial assets **EUR '000**

	Financial result			
	31/12/2019		31/12/2018	
Other financial assets	Increase	Decrease	Increase	Decrease
EBITDA (+/- 5%)	133	(166)	457	(457)
Discount rate (WACC) after tax (+/- 1%)	(747)	926	(411)	528
Repayment 2 years earlier	395	n/a	77	n/a

The sensitivities are determined by conducting the measurements again using the changed parameters

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

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

The Lenzing Group uses derivative financial instruments to hedge cross-currency interest rate risks arising from private placements in foreign currencies. These derivative financial instruments serve to balance the variability between interest and principal payments on private placements in USD. Hedges are determined to hedge against the currency risk resulting from the private placements in USD and the principal and interest payments in foreign currencies as well as the interest rate risk resulting from floating rate interest payments of the hedged item. The Lenzing Group generally applies the hedge accounting rules defined by IFRS 9 to these derivative financial instruments. Hedge effectiveness is measured by grouping the hedged items and hedging instruments together in at least quarterly maturity ranges for each hedged risk. The retrospective hedging effect or ineffectiveness is evaluated with the dollar-offset method, which compares the periodic changes in the fair value of the hedged items with the periodic changes in the fair value of the hedges in line with the compensation method. As part of hedging the exchange rate risk, which results from raising and the principal and interest payments of a private placement as well as the interest rate risk ("cash flow hedges"), the Lenzing Group typically hedges the risk up to the repayment of the private placement.

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

Offsetting financial assets and liabilities

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

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

Offsetting financial assets and liabilities EUR '000

Financial assets as at 31/12/2019	Financial assets (gross)	Recognized financial assets (net)	Effect of framework netting agreements	Net amounts
Cash and cash equivalents	571,479	571,479	0	571,479
Other financial assets – derivative financial instruments with a positive fair value	7,814	7,814	(1,185)	6,629
Total	**579,293**	**579,293**	**(1,185)**	**578,108**

EUR '000

Financial liabilities as at 31/12/2019	Financial liabilities (gross)	Recognized financial liabilities (net)	Effect of framework netting agreements	Net amounts
Bank loans	293,761	293,761	0	293,761
Other financial liabilities – derivative financial instruments with a negative fair value	8,052	8,052	(1,185)	6,867
Total	**301,811**	**301,811**	**(1,185)**	**300,628**

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

Financial assets as at 31/12/2018	Financial assets (gross)	Recognized financial assets (net)	Effect of framework netting agreements	Net amounts
Cash and cash equivalents	243,865	243,865	(2,031)	241,834
Other financial assets – derivative financial instruments with a positive fair value	2,459	2,459	(1,499)	960
Total	**246,324**	**246,324**	**(3,530)**	**242,794**

EUR '000

Financial liabilities as at 31/12/2018	Financial liabilities (gross)	Recognized financial liabilities (net)	Effect of framework netting agreements	Net amounts
Bank loans	221,173	221,173	(2,031)	219,142
Other financial liabilities – derivative financial instruments with a negative fair value	12,304	12,304	(1,499)	10,805
Total	**233,476**	**233,476**	**(3,530)**	**229,946**

Transfer of financial assets (sale of receivables/factoring)

Factoring agreements are in place which require the banks to purchase certain trade receivables from the Lenzing Group for a revolving monthly nominal amount. The Lenzing Group is entitled to sell these receivables. The agreements have indefinite terms, whereby each party has the right to cancel the agreements with notice and allow them to expire. The factoring agreements had a maximum usable nominal volume of EUR 73,406 thousand as at December 31, 2019 (December 31, 2018 EUR 73,096 thousand). They have been suspended since the 2017 financial year.

Note 37. Net interest and net result from financial instruments and net foreign currency result

Net interest and net result

The following table shows the net interest and net result from financial instruments by class/measurement category in accordance with IFRS 9:

Net interest and net result from financial instruments EUR '000

2019	Interest income	Interest expense	Net interest	From subsequent measurement at fair value through profit or loss	From subsequent measurement at fair value directly in equity	Measured at fair value directly in equity and reclassified to profit or loss	From impairment/ reversal of an impairment loss	Result on disposal	Net result (total)
Financial assets measured at amortized cost	1,654	0	**1,654**	0	0	0	4,330	0	**5,984**
Financial assets measured at fair value through profit or loss	183	0	**183**	2,335	0	0	0	0	**2,519**
Equity instruments measured at fair value directly in equity	983	0	**983**	0	2,079	0	0	0	**3,063**
Debt instruments measured at fair value directly in equity	37	0	**37**	0	(59)	(103)	0	120	**(4)**
Financial liabilities measured at amortized cost	0	(11,154)	**(11,154)**	0	0	0	0	0	**(11,154)**
Total	**2,859**	**(11,154)**	**(8,295)**	**2,335**	**2,021**	**(103)**	**4,330**	**120**	**409**

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

2018	Interest income	Interest expense	Net interest	From subsequent measurement at fair value through profit or loss	From subsequent measurement at fair value directly in equity	Measured at fair value directly in equity and reclassified to profit or loss	Impairment	Result on disposal	Net result (total)
Financial assets measured at amortized cost	1,869	0	**1,869**	0	0	0	(7,197)	0	**(5,328)**
Financial assets measured at fair value through profit or loss	159	0	**159**	(2,781)[1]	0	0	0	(1,214)	**(3,837)**
Equity instruments measured at fair value directly in equity	237	0	**237**	0	1,148	0	0	0	**1,385**
Debt instruments measured at fair value directly in equity	150	0	**150**	0	(76)	(9)	0	33	**99**
Financial liabilities measured at amortized cost	0	(8,846)	**(8,846)**	0	0	0	0	0	**(8,846)**
Total	**2,414**	**(8,846)**	**(6,431)**	**(2,781)**	**1,072**	**(9)**	**(7,197)**	**(1,181)**	**(16,526)**

1) Presentation adjusted due to IFRS 9

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

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

The component recognized directly in equity from the subsequent measurement of equity and debt instruments measured at fair value directly in equity is reported under the "reserve for financial assets measured at fair value through other comprehensive income". The remaining components of the net result are included under "income from non-current and current financial assets" and in "financing costs".

Expenses of EUR 927 thousand were recognized under other operating expenses for the provision of loans in 2019 (2018: EUR 699 thousand).

Net foreign currency result

Net foreign currency gains/losses are included in the following items: EUR minus 980 thousand (2018: EUR minus 6,628 thousand), in other operating income/expenses, EUR plus 1,363 thousand (2018: EUR plus 1,886 thousand) in income from non-current and current financial assets and EUR plus 1,454 thousand (2018: EUR minus 251 thousand) in financing costs.

Note 38. Financial risk management

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

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

Credit risk

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

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

To determine the required impairment for trade receivables for which no individual bad debt provisions were recognized, the defaults of the past years were evaluated in the Lenzing Group. The analysis has shown that there is only an immaterial risk for receivables overdue for a certain period.

The loss ratios are based on historical default rates of the last nine years and are distinguished by companies and periods overdue.

For non-current debt instruments assigned to the category "at fair value directly in equity", originated loans and other financial assets (current and non-current), which are measured at amortized cost, as well as cash and cash equivalents, the calculation of impairment is based on the average default rates. The impairment is based on the default rate per rating for the respective financial instrument. A significant change in credit risk is identified based on the rating and default of payment. Regarding instruments with a low credit risk, the Lenzing Group assumes that the credit risk has not increased significantly since the first recognition. Consequently, the twelve month credit loss is always recognized for such instruments. Since the expected impairment is immaterial, no expected credit loss is recorded for these financial assets.

The reduced earning power and uncertainties, in particular due to a fire at a plant of the buyer of EFB in 2018 (including the buyer's subsidiaries), result in a higher default risk for the receivables from these companies. Therefore, the calculation of bad debt provisions for these originated loans was changed from the expected twelve month credit loss to lifetime expected credit loss in 2018. The lifetime expected credit loss was determined based on the difference between the contractual payments and all payments expected by the management in the future. Accrued interest on impaired receivables in the amount of EUR 421 thousand was recognized in net interest.

Trade receivables are considered defaulted when they are overdue for more than 270 days or when it is unlikely that the debtor can meet the obligations without the realization of collateral. This long period of time results from the fact that about 90 percent of trade receivables are insured by credit insurance.

Financial assets are only derecognized directly if the contractual rights to payments cease to exist (particularly in the event of bankruptcy). An impairment loss is reversed up to amortized cost if the reasons for its recognition no longer exist.

The Group considers the risk concentration in trade receivables to be rather low because its customers are based in various countries, operate in different sectors and are active on largely independent markets. A rather small amount of the receivables is overdue and not individually impaired (see table "aging of receivables" below). Important effects for a change in bad debt provisions include possible default of payment by major customers or a general increase of receivables at the reporting date. During the financial year there was no significant increase in defaults. Trade receivables decreased as at December 31, 2019.

The bad debt provisions developed as follows:

Development and reconciliation of bad debt provisions EUR '000

	Lifetime expected credit loss (portfolio measurement)	Lifetime expected credit loss (individual measurement)
Trade receivables		
Bad debt provisions as at 01/01/2019	459	13,146
Transfer to "Lifetime expected credit loss"	0	(1,319)
Reversal	(46)	(1,299)
Addition	26	142
Currency translation adjustment	0	59
Bad debt provisions as at 31/12/2019	**439**	**10,729**

Development and reconciliation of bad debt provisions (previous year) EUR '000

	Lifetime expected credit loss (portfolio measurement)	Lifetime expected credit loss (individual measurement)
Trade receivables		
Bad debt provisions as at 01/01/2018	291	11,884
Transfer to "Lifetime expected credit loss"	0	(230)
Reversal	(70)	(86)
Addition	238	1,642
Currency translation adjustment	0	(65)
Bad debt provisions as at 31/12/2018	**459**	**13,146**

Lifetime expected credit loss (individual measurement) EUR '000

	2019	2018
Originated loans at amortized cost		
Bad debt provisions as at 01/01	8,263	2,422
Reversal	(3,420)	(19)
Addition	24	5,426
Currency translation adjustment	(112)	434
Bad debt provisions as at 31/12	**4,755**	**8,263**
Other financial assets (non-current and current)		
Bad debt provisions as at 01/01	337	1,095
Utilization	0	(824)
Addition	244	66
Bad debt provisions as at 31/12	**581**	**337**

The bad debt provisions for trade receivables include bad debt provisions of EUR 2,750 thousand (2018: EUR 4,000 thousand) for companies accounted for using the equity method.

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

The carrying amount of the impaired receivables is as follows:

Aging and expected credit loss for trade receivables EUR '000

31/12/2019	Gross carrying amount	Expected credit loss
Not overdue	226,486	158
Overdue up to 30 days	18,737	67
Overdue for 31 to 90 days	837	6
Overdue for 91 to 365 days	130	3
Overdue for more than one year	205	205
Credit-impaired receivables (individual measurement)	16,208	0
Total	**262,604**	**439**

Aging and expected credit loss for trade receivables (previous year) EUR '000

31/12/2018	Gross carrying amount	Expected credit loss
Not overdue	266,612	279
Overdue up to 30 days	26,265	81
Overdue for 31 to 90 days	1,559	15
Overdue for 91 to 365 days	336	5
Overdue for more than one year	80	80
Credit-impaired receivables (individual measurement)	18,399	0
Total	**313,251**	**459**

Development of expected credit loss not including credit-impaired financial assets EUR '000

As at 01/01/2018	291
Change	168
As at 31/12/2018 = 01/01/2019	459
Change	(21)
As at 31/12/2019	439

Aging of receivables EUR '000

	Originated loans	Other financial receivables (current and non-current)
Gross carrying amount as at 31/12/2019	17,231	28,002
Thereof at the reporting date:		
Not overdue	6,413	23,050
Thereof impaired	10,818	4,952

Aging of receivables (previous year) EUR '000

	Originated loans	Other financial receivables (current and non-current)
Gross carrying amount as at 31/12/2018	17,672	22,833
Thereof at the reporting date:		
Not overdue	1,766	18,125
Thereof impaired	15,906	4,708

Securities in the scope of the impairment provisions of IFRS 9 as well as cash and cash equivalents have a rating between AAA and BBB.

There are currently no doubts concerning the collectability of financial assets that are neither past due nor impaired.

The maximum exposure to credit risk from recognized financial assets is as follows:

Maximum exposure to credit risk from recognized financial assets EUR '000

	31/12/2019	31/12/2018
Carrying amount of asset financial instruments (see note 36)	892,720	603,023
Less risk reduction in relation to receivables due to		
Credit insurance received for trade receivables (not including deductibles)	(117,451)	(152,725)
Guarantees received for trade receivables	(5,080)	(6,129)
Total	**770,189**	**444,169**

The maximum exposure to credit risk from financial guarantee contracts and contingent liabilities is shown in note 41.

Liquidity risk

Liquidity risk represents the risk of not being able to obtain sufficient funds to settle incurred liabilities at all times. The management of liquidity risk has a high priority in the Lenzing Group. Corporate guidelines require uniform, proactive liquidity forecasts and medium-term planning throughout the entire Group. The Lenzing Group continuously monitors the risk of a possible liquidity shortage.

The Lenzing Group had liquid assets totaling EUR 580,983 thousand (December 31, 2018: EUR 254,395 thousand) in the form of cash and cash equivalents and liquid bills of exchange (see note 35). Unused credit facilities of EUR 266,591 thousand were available as at December 31, 2019 (December 31, 2018: EUR 341,600 thousand) to finance necessary working capital and to cover any shortfalls caused by economic cycles. The medium- and long-term financing for the Lenzing Group is provided by equity and financial liabilities, in particular bonds, private placements and bank loans. Current financial liabilities can regularly be extended or refinanced with other lenders. Trade payables provide short-term financing for the goods and services purchased. The liabilities covered by reverse factoring agreements are settled in line with their agreed maturity, whereby the related cash outflows are included in liquidity planning. For this reason, the Group considers the concentration of risk with regard to sufficient financing sources as rather low.

The contractually agreed (undiscounted) interest and principal payments for primary financial liabilities (including financial guarantee contracts) are shown below:

Maturity analysis of non-derivative financial liabilities EUR '000

	Carrying amount as at 31/12/2019	Cash flows 2020	Cash flows 2021 to 2024	Cash flows from 2025
Private placements	599,932	45,993	361,110	237,610
Bank loans	293,761	80,642	154,900	68,668
Loans from other lenders	51,562	8,940	47,561	0
Lease liabilities	36,337	9,266	18,169	14,954
Trade payables	243,589	243,589	0	0
Provisions (current – financial)	23,441	23,441	0	0
Other financial liabities[1]	3,300	3,300	0	0
Total	**1,251,922**	**415,172**	**581,740**	**321,231**
Thereof:				
Fixed interest		7,804	21,867	7,999
Fixed and floating rate interest		87	113	0
Floating rate interest		7,218	16,507	3,339
Repayment		400,063	543,252	309,893

1) The above includes the maximum possible payment obligations from financial guarantee contracts. The amounts are assumed to be due in the first year.

Maturity analysis of non-derivative financial liabilities (previous year) EUR '000

	Carrying amount as at 31/12/2018	Cash flows 2019	Cash flows 2020 to 2023	Cash flows from 2024
Private placements	219,679	38,632	175,398	21,337
Bank loans	221,173	127,858	81,594	16,241
Loans from other lenders	31,128	7,090	24,585	0
Lease liabilities	1,788	128	319	2,175
Trade payables	251,721	251,721	0	0
Provisions (current – financial)	33,018	33,018	0	0
Other financial liabities[1]	2,819	2,819	0	0
Total	**761,325**	**461,265**	**281,897**	**39,753**
Thereof:				
Fixed interest		4,387	9,221	1,745
Fixed and floating rate interest		127	200	0
Floating rate interest		2,983	2,461	146
Repayment		453,769	270,016	37,861

1) The above includes the maximum possible payment obligations from financial guarantee contracts. The amounts are assumed to be due in the first year.

The above tables include all primary financial liabilities held at the reporting date, but exclude estimated future liabilities. Foreign currency amounts were translated with the spot exchange rate in effect at the reporting date. Floating rate interest payments were calculated according to the last interest rates set before the reporting date. Financial liabilities that are repayable at any time are always assigned to the earliest time period.

The contractually agreed (undiscounted) interest and principal payments for derivative financial instruments are as follows:

Maturity analysis of derivative financial instruments EUR '000

	Carrying amount as at 31/12/2019	Cash flows 2020	Cash flows 2021 to 2024	Cash flows from 2025
Currency/Currency interest rate derivatives				
Derivatives with a positive fair value (cash flow hedges)	7,159	5,189	1,969	
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)	655	655	0	
Positive fair value	7,814	5,844	1,969	0
Derivatives with a negative fair value (cash flow hedges)	(1,943)	(1,354)	(588)	
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)	(3,083)	(3,083)	0	
Negative fair value	(5,026)	(4,438)	(588)	0
Total	**2,788**	**1,407**	**1,381**	**0**

Cash flows consist solely of principal payments and do not include any interest components. Fair value: + = receivable, - = liability from the Lenzing Group's perspective

Maturity analysis of derivative financial instruments (previous year) EUR '000

	Carrying amount as at 31/12/2018	Cash flows 2019	Cash flows 2020 to 2023	Cash flows from 2024
Currency derivatives				
Derivatives with a positive fair value (cash flow hedges)	1,573	1,473	100	
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)	886	886	0	
Positive fair value	2,459	2,359	100	0
Derivatives with a negative fair value (cash flow hedges)	(7,602)	(6,871)	(731)	
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)	(4,702)	(4,702)	0	
Negative fair value	(12,304)	(11,573)	(731)	0
Total	**(9,845)**	**(9,214)**	**(631)**	**0**

Cash flows consist solely of principal payments and do not include any interest components. Fair value: + = receivable, - = liability from the Lenzing Group's perspective

Currency risk

Cash flows from capital expenditures and the operating business as well as investments and financing in foreign currencies expose the member companies of the Lenzing Group to currency risks. Risks from foreign currencies are hedged as far as possible if they influence the Group's cash flows. In the operating business, the individual group companies are exposed to currency risk in connection with planned incoming and outgoing payments outside their functional currency. Forward foreign exchange contracts, which are recognized at fair value, are used to hedge the exchange rate risk from foreign currency positions arising from expected future transactions in foreign currencies by group companies.

The Lenzing Group operates a fiber production plant in Grimsby, Great Britain. From the current point of view, the GBP devaluation caused by the Brexit referendum is not expected to have any material effects on the Grimsby location or the remainder of the Lenzing Group because the invoices issued by Grimsby are generally not denominated in GBP. The expenses recorded by the Grimsby plant are, for the most part, denominated in GBP and therefore have no negative foreign currency effect. The further development of this situation and its effects on the Lenzing Group cannot be estimated at the present time.

For companies with the same functional currency, the respective net foreign currency exposures are calculated for the following sales year as part of the budgeting process. Foreign currency purchases and sales are aggregated into separate groups for each currency. Approximately 26 percent of the budgeted net exposure for the following financial year was hedged for EUR/USD, the dominant currency pair in the Lenzing Group, as at December 31, 2019 (December 31, 2018: approximately 55 percent). The reason for the decline is that USD loans will be drawn in the following financial year. The CNY also plays an important role. The resulting risk concentration at the reporting date can be seen in the following tables (especially the tables on "sensitivity analysis and risk exposure for foreign currency risks").

Translation risk is also regularly assessed and monitored at the Group level. Translation risk represents the risk arising from the consolidation of foreign investments whose functional currency is not the euro. The greatest risk exposure here is in relation to the US dollar.

Instruments to hedge currency risk

Cash flow hedges are allocated to revenue from the operating business in the following financial years in the respective hedged currency. Cash flow hedges whose underlying hedged item was already recognized in profit or loss are used to hedge foreign currency receivables/liabilities that were recognized at the reporting date but do not impact cash until a later time.

The critical terms of payment of the hedged items and hedging instruments (in particular, the nominal value and time of payment) are generally identical or offset one another ("critical terms match"). Therefore, the Management Board considers the offsetting of value changes of the hedged items and hedging instrument resulting from changes in the exchange rate when forming a measurement unit as highly effective. The economic relationship for fair value hedge derivatives for options is ensured as the value development of the hedged item is offset by that of the hedge.

The measurement of the hedged item is offset by the hedge and is therefore effective. Risks of ineffectiveness include the credit risk of a counterparty, a significant change in the credit risk of a contractual party in the hedging relationship or the change of time of payment of the hedged item, reduction of the total invoice amount or price of the hedged item. Risks are always hedged in their entirety. The hedging ratio for the hedged nominal values is 100 percent.

As the invoicing currency in 2018 was changed in a subsidiary of the Lenzing Group, the hedging of the CNY currency risk was terminated early. The nominal value at the time the hedge accounting ended amounted to CNY 66,830,000. The average hedging rate (CNY/USD) amounted to 6,7778. As no cash flows are expected from the originally hedged items any more, the hedging results recognized in the hedging reserve until the termination of the hedging relationship were reclassified to the statement of profit or loss.

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

				31/12/2019				EUR '000
		Nominal value in '000	Positive fair value	Negative fair value	Net fair value	Hedging period until	Average hedging rate	Change in fair value used to calculate ineffectiveness
Forward foreign exchange contracts								
CNY/CNH-sale / EUR-buy	CNY/CNH	993,900	3,252	0	3,252	09/2021	8.66	(431)
CNY/CNH-sale / GBP-buy	CNY/CNH	210,000	961	(198)	763	09/2021	9.36	53
CZK-buy / EUR-sale	CZK	213,000	59	(15)	44	01/2021	26.05	65
THB-buy / USD-sale	THB	5,649,509	1,724	0	1,724	04/2021	30.50	3,697
USD-buy / CNY-sale	USD	21,200	121	(206)	(85)	01/2021	7.05	212
USD-sale / CZK-buy	USD	98,900	690	(172)	518	02/2021	22.89	403
USD-sale / EUR-buy	USD	80,860	185	(1,007)	(822)	02/2021	1.15	(792)
Cross Currency derivatives								
USD-buy / EUR-sale	USD	65,000	166	(344)	(179)	12/2024	1.10	(161)
Total			**7,159**	**(1,943)**	**5,216**			**3,046**

Fair value: + = receivable, – = liability from the Lenzing Group's perspective
The hedging period represents the period for the expected cash flows and their recognition in profit or loss.

Nominal value, fair value and hedging period of cash flow hedge derivatives for currency risks (previous year)

				31/12/2018				EUR '000
		Nominal value in '000	Positive fair value	Negative fair value	Net fair value	Hedging period until	Average hedging rate	Change in fair value used to calculate ineffectiveness
Forward foreign exchange contracts								
CNY/CNH-sale / EUR-buy	CNY/CNH	807,900	0	(2,099)	(2,099)	06/2020	8.25	(1,557)
CNY/CNH-sale / GBP-buy	CNY/CNH	190,700	0	(846)	(846)	06/2020	9.15	(713)
CZK-buy / EUR-sale	CZK	196,200	0	(35)	(35)	01/2020	26.23	15
EUR-buy / USD-sale	EUR	9,149	18	(186)	(168)	03/2019	1.16	(168)
EUR-sale / GBP-buy	EUR	2,650	0	(36)	(36)	10/2019	0.90	(33)
USD-buy / CNY-sale	USD	31,250	182	(399)	(217)	01/2020	7.06	(350)
USD-sale / CZK-buy	USD	113,501	854	(1,332)	(478)	02/2020	22.11	(1,114)
USD-sale / EUR-buy	USD	216,377	518	(2,652)	(2,133)	02/2020	1.18	(2,122)
USD-sale / GBP-buy	USD	800	0	(18)	(18)	10/2019	8.24	(18)
Total			**1,573**	**(7,602)**	**(6,029)**			**(6,059)**

Fair value: + = receivable, – = liability from the Lenzing Group's perspective
The hedging period represents the period for the expected cash flows and their recognition in profit or loss.

Cash flow hedges for currency risks with the hedged item already recognized in profit or loss

The following table shows the nominal values and fair values of cash flow hedges at the reporting dates in cases where the hedged item was already recognized in profit or loss:

Nominal value and fair value of cash flow hedge derivatives for currency risks with the underlying already recognized in profit or loss

		31/12/2019					EUR '000
		Nominal value in '000	Positive fair value	Negative fair value	Net fair value	Average hedging rate	Change in fair value used to calculate ineffectiveness
Forward foreign exchange contracts							
CNY/CNH-sale / EUR-buy	CNY/CNH	467,800	267	(1,363)	(1,095)	8.10	(1,544)
CNY/CNH-sale / GBP-buy	CNY/CNH	121,600	290	(4)	286	9.11	177
CNY/CNH-buy/ EUR-sale	CNY/CNH	73,300	0	(78)	(78)	7.79	(53)
USD-sale / CZK-buy	USD	14,500	0	(229)	(229)	22.36	(233)
USD-sale / EUR-buy	USD	34,000	1	(1,410)	(1,409)	1.18	(1,417)
THB-buy / USD-sale	THB	228,213	97	0	97	30.43	126
Total			**655**	**(3,083)**	**(2,428)**		**(2,945)**

Fair value: + = receivable, – = liability from the Lenzing Group's perspective

Nominal value and fair value of cash flow hedge derivatives for currency risks with the underlying already recognized in profit or loss (previous year)

		31/12/2018					EUR '000
		Nominal value in '000	Positive fair value	Negative fair value	Net fair value	Average hedging rate	Change in fair value used to calculate ineffectiveness
Forward foreign exchange contracts							
CNY/CNH-sale / USD-buy	CNY/CNH	11,770	3	(2)	0	6.88	(1)
CNY/CNH-sale / EUR-buy	CNY/CNH	511,300	133	(2,122)	(1,989)	8.19	(1,877)
CNY/CNH-sale / GBP-buy	CNY/CNH	78,200	0	(408)	(408)	9.14	(392)
CNY/CNH-buy/ EUR-sale	CNY/CNH	28,400	23	0	23	7.95	21
CNY/CNH-buy / GBP-sale	CNY/CNH	12,800	8	0	8	8.78	7
USD-buy / CNY-sale	USD	17,050	562	(26)	536	6.63	554
EUR-buy / USD-sale	EUR	380	0	(12)	(12)	1.18	(12)
EUR-sale / GBP-buy	EUR	1,420	1	(17)	(16)	0.89	(16)
CZK-buy / EUR-sale	CZK	7,600	0	(3)	(3)	25.60	(3)
EUR-sale / USD-buy	EUR	227	7	0	7	1.18	7
USD-sale / CZK-buy	USD	10,400	0	(786)	(786)	20.53	(791)
USD-sale / EUR-buy	USD	29,086	150	(1,233)	(1,084)	1.20	(1,084)
USD-sale / GBP-buy	USD	1,100	0	(92)	(92)	1.41	(92)
Total			**886**	**(4,702)**	**(3,816)**		**(3,677)**

Fair value: + = receivable, – = liability from the Lenzing Group's perspective

Cash flow hedges for cross-currency interest rate and risks

A cross-currency interest rate swap was concluded in the 2019 financial year to hedge the interest rate and currency risks for the floating rate USD tranche of the private placement. The nominal value of the cash flow hedge derivatives amounts to EUR 40,861 thousand and EUR 18,160 thousand as at December 31, 2019. The fair value of the cash flow hedge derivatives amounts to EUR minus 179 thousand as at December 31, 2019.

The change in fair value used to calculate ineffectiveness amounts to EUR 212 thousand (for the tranche of USD 20 mn) and EUR minus 260 thousand (for the tranche of USD 45 mn). The ineffective portion as at December 31, 2019 amounts to EUR 124 thousand and was recognized in the financial result. The average fixed interest rate amounts to 0.75 Percent over the term.

Fair value hedge derivatives for options

The nominal value of fair value hedge derivatives amounts to EUR 12,260 thousand as at December 31, 2019 (December 31, 2018: EUR 11,773 thousand). The fair value of fair value hedge derivatives amounts to EUR minus 3,026 thousand as at December 31, 2019 (December 31, 2018: EUR 0 thousand).

The carrying amount of the investment amounts to EUR 10,947 thousand as at December 31, 2019 (December 31, 2018: EUR 6,681 thousand). The hedged item is recognized under financial assets. The change in value for the hedged item and the hedge, which was used to calculate ineffectiveness, amounts to EUR minus 3,026 thousand as at December 31, 2019 (December 31, 2018: EUR 0 thousand). No ineffectiveness was recognized through profit or loss in the current financial year or in the previous year.

The risk management goal is to hedge the value of the investment against value fluctuations. A put/call option is used as a hedge. The hedge ratio is determined based on the nominal value. The hedging instruments run until 2021 and 2022.

Cash flow hedge derivatives for currency risks

The following table shows the carrying amounts, the hedging reserve and the ineffectiveness of the hedged items designated as hedging instruments (purchases and sales):

Disclosures on hedged items of cash flow hedge derivatives for currency risks – ineffectiveness EUR '000

	2019			2018		
Currency risks	Change in fair value used to calculate ineffectiveness	Ineffectiveness	Line item in the income statement	Change in fair value used to calculate ineffectiveness	Ineffectiveness	Line item in the income statement
Sales	(3,772)	0	Financial result	(9,940)	0	Financial result
Purchases	4,035	0	Financial result	204	0	Financial result
Total	**262**	**0**		**(9,736)**	**0**	

Changes in the hedging reserve EUR '000

	2019			2018		
	Hedging reserve	Cost of hedging	Total	Hedging reserve	Cost of hedging	Total
Hedging reserve as at 01/01	(6,426)	(300)	(6,727)	4,928	0	4,928
Cash flow hedges – changes in fair value recognized during the year	(11,518)	2,165	(9,353)	(14,069)	(162)	(14,231)
Reclassification to revenue	20,018	545	20,563	2,657	(120)	2,538
Reclassification to inventories	178	0	178	58	(18)	39
Reclassification to property, plant and equipment	(59)	(29)	(88)	0	0	0
Reclassification to financial result	120	5	124	0	0	0
Hedging reserve as at 31/12	**2,312**	**2,386**	**4,698**	**(6,426)**	**(300)**	**(6,727)**

Sensitivity analysis and exposure for currency risks

The Lenzing Group uses the following assumptions for its sensitivity analysis:

- The sensitivity of profit or loss is based on the receivables and liabilities recognized by the group companies which are denominated in a currency other than the functional currency of the relevant company and the open derivatives from cash flow hedges for currency risks in cases where the hedged item was already recognized in profit or loss as at the reporting date. The carrying amounts of the receivables and liabilities, respectively the nominal values of the derivatives, correspond to the exposure. The individual exposures are presented consistently in relation to the US dollar and euro for the aggregation to the Group's exposure.
- The sensitivity of other comprehensive income as at the reporting date is based on the open derivatives from cash flow hedges for currency risks in cases where the hedged item has not yet been recognized in profit or loss. The nominal value of the open derivatives corresponds to the exposure.

The following tables show the sensitivities and exposure for currency risk as at the reporting dates:

Sensitivity analysis and risk exposure for foreign currency risks (EUR) EUR '000

	31/12/2019			31/12/2018		
	Group exposure in relation to EUR	Sensitivity to 10% devaluation of the EUR	Sensitivity to 10% revaluation of the EUR	Group exposure in relation to EUR	Sensitivity to 10% devaluation of the EUR	Sensitivity to 10% revaluation of the EUR
EUR-USD	112,122	12,458	(10,193)	86,056	9,562	(7,823)
EUR-GBP	(1,965)	(218)	179	194	22	(18)
EUR-CNY/CNH	57,502	6,389	(5,227)	32,749	3,639	(2,977)
EUR-CZK	(5,218)	(580)	474	(9,498)	(1,055)	863
EUR-HKD	(4,518)	(502)	411	(3,340)	(371)	304
EUR-THB	(64)	(7)	6	1,799	200	(164)
Sensitivity of profit or loss (due to receivables and liabilities)		**17,540**	**(14,351)**		**11,996**	**(9,815)**
Sensitivity of other comprehensive income (due to cash flow hedge derivatives)		(18,626)	15,239		(24,644)	20,281
Sensitivity of equity		**(1,086)**	**888**		**(12,648)**	**10,467**

Group exposure: + receivable, – liability; sensitivity: + increase in profit/other comprehensive income, - decrease in profit/other comprehensive income

Sensitivity analysis and risk exposure for foreign currency risks (USD/GBP) EUR '000

	31/12/2019			31/12/2018		
	Group exposure in relation to USD/GBP	Sensitivity to 10% devaluation of the USD/GBP	Sensitivity to 10% revaluation of the USD/GBP	Group exposure in relation to USD/GBP	Sensitivity to 10% devaluation of the USD/GBP	Sensitivity to 10% revaluation of the USD/GBP
USD-IDR	5,938	660	(540)	511	57	(46)
USD-GBP	(4,870)	(541)	443	(2,221)	(247)	202
USD-CNY/CNH	(1,253)	(139)	114	6,351	706	(577)
USD-CZK	(9,106)	(1,012)	828	(20,307)	(2,256)	1,846
USD-THB	(28,400)	(3,156)	2,582	(7,289)	(810)	663
USD-BRL	(25,692)	(2,855)	2,336	569	63	(52)
GBP-CNY/CNH	1,663	185	(151)	5,418	602	(493)
GBP-JPY	0	0	0	1,222	136	(111)
Sensitivity of profit or loss (due to receivables and liabilities)		**(6,858)**	**5,611**		**(1,750)**	**1,431**
Sensitivity of other comprehensive income (due to cash flow hedge derivatives)		27,480	(21,028)		9,536	(7,307)
Sensitivity of equity		**20,622**	**(15,417)**		**7,786**	**(5,876)**

Group exposure: + receivable, – liability; sensitivity: + increase in profit/other comprehensive income, - decrease in profit/other comprehensive income

Commodity risk

The gas price risk is hedged physically through supply contracts. The group is also subject to the usual market price risks in connection with its business activities (especially relating to wood, chemicals, pulp and energy) which are not hedged with derivatives or financial instruments, but protected through other measures (above all, long-term and short-term supply contracts with various suppliers).

Interest rate risk

The Lenzing Group is exposed to interest rate risk through its business-related financing and investing activities. Interest rate risks arise through potential changes in the market interest rate. They can lead to a change in the fair value of fixed rate financial instruments and to fluctuations in the cash flows from interest payments for floating rate financial instruments. Interest rate risks and the resulting risk concentrations are managed by monitoring and adjusting the composition of fixed rate and floating rate primary financial instruments on an ongoing basis and by the selective use of derivative financial instruments.

Sensitivity analysis and exposure for interest rate risks

The following tables show the exposure for interest rate risks at the reporting dates in the form of the carrying amounts of interest-bearing primary financial instruments:

Risk exposure for interest rate risks EUR '000

	31/12/2019				
	Fixed interest	Fixed and floating rate interest	Floating rate interest	No interest	Total
Cash and cash equivalents	0	0	571,479	0	**571,479**
Financial assets[1]	49	0	11,062	30,692	**41,803**
Financial liabilities	(530,949)	(15,151)	(435,491)	0	**(981,591)**
Total	**(530,901)**	**(15,151)**	**147,050**	**30,692**	**(368,309)**

+ Receivables, - liabilities
1) Includes, among others, the GF82 wholesale fund whose income is distributed or reinvested.

Risk exposure for interest rate risks (previous year) EUR '000

	31/12/2018				
	Fixed interest	Fixed and floating rate interest	Floating rate interest	No interest	Total
Cash and cash equivalents	0	0	243,865	0	**243,865**
Financial assets[1]	52	0	7,643	28,984	**36,679**
Financial liabilities	(208,481)	(19,426)	(245,860)	0	**(473,767)**
Total	**(208,429)**	**(19,426)**	**5,648**	**28,984**	**(193,223)**

+ Receivables, - liabilities
1) Includes, among others, the GF82 wholesale fund whose income is distributed or reinvested.

Sensitivity analyses are performed for the interest rate risks arising from floating rate financial instruments. They show the effects of hypothetical changes in interest rates on profit or loss, other comprehensive income and equity.

The Lenzing Group uses the following assumptions in its analysis of the interest rate risk arising from floating rate financial instruments:

- The sensitivity analysis includes all floating rate primary financial instruments as at the reporting date.
- The exposure corresponds to the carrying amount of the floating rate financial instruments.

The sensitivities and exposure for the interest rate risks arising from floating rate financial instruments are as follows as at the reporting dates:

Sensitivity analysis for interest rate risks from floating rate financial instruments **EUR '000**

31/12/2019	Exposure with floating rate interest	Sensitivity to a 100 bp increase in the interest rate level	Sensitivity to a 100 bp decrease in the interest rate level[1]
Cash and cash equivalents	571,479	5,715	(5,715)[2]
Financial liabilities	(435,491)	(4,361)	2,006[3]
Sensitivity of profit or loss/equity	**135,988**	**1,354**	**(3,709)**

Sensitivity analysis for interest rate risks from floating rate financial instruments (previous year) **EUR '000**

31/12/2018	Exposure with floating rate interest	Sensitivity to a 100 bp increase in the interest rate level	Sensitivity to a 100 bp decrease in the interest rate level[1]
Cash and cash equivalents	243,865	2,439	(2,439)[2]
Financial liabilities	(245,860)	(2,460)	1,080[3]
Sensitivity of profit or loss/equity	**(1,995)**	**(21)**	**(1,359)**

1) A reduction in the basis points results in a proportional decrease in the sensitivity.
2) Assumption that negative interest will be paid.
3) The calculation excludes liabilities for which negative interest is not calculated.

Additional information on financial risk management and financial instruments is provided in the risk report of the Lenzing Group's management report as at December 31, 2019.

Disclosures on Related Parties and Executive Bodies

Note 39. Related party disclosures

Overview

Related parties of the Lenzing Group include, in particular, the member companies of the B&C Group together with its subsidiaries, joint ventures and associates and its corporate bodies (executive board/management and supervisory board, where applicable) as well as close relatives of the members of the corporate bodies and companies under their influence (see note 1 "Description of the company and its business activities" and note 40). The amounts and transactions between Lenzing AG and its consolidated subsidiaries are eliminated through consolidation and are not discussed further in this section.

B&C Privatstiftung is managed by a board of trustees. No member of the Management Board of Lenzing AG is a member of this board of trustees or the management/management board of a subsidiary of B&C Privatstiftung, with the exception of subsidiaries of the Lenzing Group. The Lenzing Group has no influence over the business activities of B&C Privatstiftung.

The members of the corporate bodies of Lenzing AG (in particular, the Supervisory Board) and the above-mentioned entities are, in some cases, also members of the corporate bodies or shareholders of other companies with which Lenzing AG maintains ordinary business relationships. The Lenzing Group maintains ordinary business relationships with banks that involve financing, investing and derivatives.

Relationship with related companies

In connection with the tax group established with B&C Group (see note 31), the Lenzing Group recognized a tax credit of EUR 688 thousand through profit or loss in 2019 (2018: tax credit of EUR 386 thousand). Contractual obligations resulted in the payment or advance payment of tax allocations totaling EUR 21,275 thousand in 2019 (2018: EUR 39,251 thousand). The Lenzing Group recognized a payable of EUR 13,398 thousand towards B&C Group from the tax allocation, after the deduction of advance payments, as at December 31, 2019 (December 31, 2018: receivable of EUR 2,391 thousand). Income tax expense of EUR 36,219 thousand was recognized in 2019 as a result of the tax allocation to B&C Group (2018: EUR 32,392 thousand).

Relationships with companies accounted for using the equity method and their material subsidiaries

Transactions with companies accounted for using the equity method and their material subsidiaries relate primarily to:

Material relationships with companies accounted for using the equity method

EQUI-Fibres Beteiligungsgesellschaft mbH and its subsidiaries (EFB)	Distribution of fibers, delivery of pulp, loan assignment
Lenzing Papier GmbH (LPP)	Provision of infrastructure and administrative services
RVL Reststoffverwertung Lenzing GmbH (RVL)	Operation of a recycling plant and purchase of the generated steam; rental of land
Gemeinnützige Siedlungsgesellschaft m.b.H. für den Bezirk Vöcklabruck (GSG)	Provision of infrastructure and administrative services
PT. Pura Golden Lion (PGL)	Loan liability
Wood Paskov s.r.o. (LWP)	Purchase of wood
LD Florestal S.A. (LDF)	Loan liability

The scope of material transactions and the outstanding balances with companies accounted for using the equity method and their major subsidiaries are as follows:

Relationships with companies accounted for using the equity method and their material subsidiaries EUR '000

	Associates		Joint ventures	
	2019	2018	2019	2018
Goods and services provided and other income	53,301	57,654	11,966	11,479
Goods and services received and other expenses	168	1,666	12,112	11,819
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Receivables	14,804	13,240	44	7
Liabilities	2,875	3,927	25,245	17

Bad debt provisions of EUR 1.250 thousand for trade receivables from companies accounted for using the equity method were recognized to profit or loss as expense in 2019 (2018: EUR 1,250 thousand).

Kelheim Fibers GmbH, Kelheim, Germany, a subsidiary of the equity-accounted investee EQUI-Fibres Beteiligungsgesellschaft mbH, Kelheim, Germany, received a long-term, unsecured loan of EUR 5,000 thousand from Lenzing AG in 2017. The interest reflects standard bank rates. In the 2019 financial year, an impairment loss on this loan of EUR 949 thousand from the previous year was reversed through profit or loss.

LD Florestal S.A. which is accounted for using the equity method issued an unsecured loan of EUR 39,322 thousand to the fully consolidated subsidiary LD Celulose S.A. in 2019, which carries standard bank interest rates (2018: EUR 13,161 thousand). EUR 25,226 thousand of the loan were drawn down as at December 31, 2019 (December 31, 2018: EUR 1,240 thousand).

There were no major transactions with the other non-consolidated subsidiaries in 2018 and 2019.

Relationships with members of the Management Board and Supervisory Board of Lenzing AG

The fixed and variable current remuneration recognized by Lenzing AG for the active members of the Management Board are as follows:

Fixed and variable current remuneration for active members of the Management Board (expensed) EUR '000

	Stefan Doboczky		Robert van de Kerkhof		Thomas Obendrauf		Heiko Arnold[1]		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Fixed current remuneration	854	778	463	437	412	397	413	398	2,141	2,010
Variable current remuneration	154	588	132	213	130	250	228	272	644	1,324
Total	**1,008**	**1,366**	**595**	**650**	**542**	**647**	**641**	**670**	**2,785**	**3,333**

1) Member of the Management Board until December 1, 2019.

The above total of EUR 2,785 thousand reported for the 2019 financial year (2018: EUR 3,333 thousand) includes short-term employee benefits (fixed and variable current remuneration). The active members of the Management Board were also granted termination benefits of EUR 267 thousand (2018: EUR 236 thousand) in the form of company pension and severance plans. In addition, the provisions for the entitlements from long-term bonus models and other contractual models for active members of the Management board were increased by EUR 1,757 thousand through profit or loss in 2019 (2018: EUR 1,940 thousand). Of this total, EUR 957 thousand (2018: EUR 1,940 thousand) were related to other long-term employee benefits and EUR 800 thousand (2018: EUR 0 thousand) to termination benefits.

The contracts of all four Management Board members were rewritten in January 2019, in particular with respect to the regulation of variable remuneration components. The new benchmark for the long-term bonus component consists of selected key indicators of the Lenzing Group, each over a three-year calculation period. In addition, the company's capital market performance is assessed in comparison with a group of selected listed companies during these periods. To this end, the total shareholder return, i.e. the development of the share price including the dividend payout, is determined and compared with the peer group. The long-term bonus component is paid out upon expiry of the respective calculation period, independent of an extension of the Management Board mandate. The bonus is paid in the form of a cash consideration and classified as other long-term employee benefits.

A provision was formed to satisfy entitlements arising from long-term bonus models as part of old contracts as of December 31, 2019 (other long-term employee benefits).

The expenses for the active members of the Supervisory Board of Lenzing AG (short-term employee benefits in the form of remuneration and attendance fees for the Supervisory Board members and change of provisions) amounted to EUR 858 thousand in 2019 (2018: EUR 906 thousand).

The remuneration expensed for key management personnel, which comprises the active members of the Management Board and Supervisory Board of Lenzing AG, in line with their functions is summarized below (including changes in provisions):

Remuneration for key management personnel (expensed) EUR '000

	2019	2018
Remuneration for the Management Board		
Short-term employee benefits	2,785	3,333
Other long-term employee benefits	957	1,940
Post-employment benefits	267	236
Termination benefits	800	0
Remuneration for the Management Board	4,810	5,509
Remuneration for the Supervisory Board		
Short-term employee benefits	858	906
Total	**5,668**	**6,415**

The employee representatives on the Supervisory Board who were delegated by the Works Council are entitled to regular compensation (wage or salary plus severance and jubilee benefits) under their employment contracts. This compensation represents appropriate remuneration for their role/activities performed in the company.

In line with customary market and corporate practice, Lenzing AG also grants additional benefits, which are considered non-cash benefits, to the members of the Management Board, selected senior executives and Supervisory Board members. One example of such benefits is insurance coverage (D&O, accident, legal protection etc.), whereby the costs are carried by the Lenzing Group. The insurers receive total premium payments, i.e. there is no specific allocation to the Management Board and the Supervisory Board. In addition, the members of the Management Board and selected senior executives are provided with company vehicles. The members of the Management Board and the Supervisory Board are also reimbursed for certain costs incurred, above all travel expenses. The principles of the remuneration system for the Management Board and the Supervisory Board are described in detail and disclosed in the 2019 corporate governance report of the Lenzing Group.

The members of the Management Board and Supervisory Board received no advances, loans or guarantees. The Lenzing Group has not entered into any contingencies on behalf of the Management Board or Supervisory Board. Directors' dealings reports relating to the members of the Management Board and Supervisory Board are published on the Austrian Financial Market Authority website (see http://www.fma.gv.at).

Post-employment benefits of EUR 2,193 thousand were recognized for former members of the Management Board of Lenzing AG or their surviving dependents in the form of expenses on the income statement and allocations to other comprehensive income (2018: income of EUR 232 thousand). The present value of the pension provision recognized in this context, after deduction of the fair value of plan assets (net obligation), amounted to EUR 7,562 thousand as at December 31, 2019 (December 31, 2018: EUR 6,152 thousand).

Note 40. Executive Bodies

Members of the Supervisory Board

- Peter Edelmann (since April 12, 2018)
  Chairman (since April 17, 2019)
- Veit Sorger
  Deputy Chairman
- Helmut Bernkopf
- Christian Bruch (since April 17, 2019)
- Stefan Fida (since April 17, 2019)
- Felix Fremerey (since April 12, 2018)
- Franz Gasselsberger
- Patrick Prügger
- Astrid Skala-Kuhmann

- Hanno Bästlein (up to April 17, 2019)
  Chairman
- Christoph Kollatz (up to April 17, 2019)
  Deputy Chairman (since April 12, 2018)
- Felix Strohbichler
  Deputy Chairman (up to April 12, 2018)
- Josef Krenner (up to April 12, 2018)

Appointed by the Works Council

- Johann Schernberger
  Chairman of the Group Works Council
  Chairman of the Works Committee
  Chairman of the Works Council for Waged Employees
- Georg Liftinger
  Chairman of the Works Council for Salaried Employees
  Deputy Chairman of the Works Committee
- Helmut Kirchmair
  Deputy Chairman of the Works Council for Waged Employees
- Herbert Brauneis
  Deputy Chairman of the Works Council for Waged Employees (since April 12, 2018)
- Daniela Födinger
  Deputy Chairwoman of the Works Council for Salaried Employees

Members of the Management Board

- Stefan Doboczky
  Chief Executive Officer (CEO)
  Chairman of the Management Board
- Robert van de Kerkhof
  Chief Commercial Officer (CCO)
  Member of the Management Board
- Thomas Obendrauf
  Chief Financial Officer (CFO)
  Member of the Management Board
- Stephan Sielaff
  Chief Technology Officer (CTO)
  Member of the Management Board (since March 1, 2020)
- Christian Skilich
  Member of the Management Board (from June 1, 2020)

- Heiko Arnold
  Chief Technology Officer (CTO)
  Member of the Management Board (up to December 1, 2019)

Note 41. Financial guarantee contracts, contingent assets and liabilities, other financial obligations and legal risks

The Lenzing Group has entered into contingent liabilities of EUR 6,796 thousand (December 31, 2018: EUR 6,075 thousand), above all to secure claims related to the sale of certain equity investments and claims by suppliers, for possible default on sold receivables (also see note 36) and for claims by third parties outside the Group. Less important contingent liabilities involve granted retentions. The reported amounts represent the maximum payment obligation from the viewpoint of the Lenzing Group, and there is only a limited potential for recoveries.

The Lenzing Group provides committed credit lines of EUR 10,910 thousand (December 31, 2018: EUR 13,198 thousand) to third parties. These credit lines were not used as at December 31, 2019 and December 31, 2018 (also see note 21).

Bank guarantees of EUR 295,648 thousand are in place for future equity injections of Lenzing AG for LD Celulose S.A. from 2020 to 2022. These bank guarantees were not drawn as at December 31, 2019.

The Lenzing Group carries obligations for severance payments and anniversary benefits for former employees of certain sold equity investments up to the amount of the notional claims at the sale date. Provisions were recognized for these obligations as at the reporting date at an amount equal to their present value calculated in accordance with actuarial principles. Lenzing AG, in particular, has also assumed liabilities to secure third-party claims against consolidated companies; these claims are considered unlikely to be realized. The Management Board is not aware of any other financial obligations with a significant impact on the financial position and financial performance of the Group.

The obligations arising from outstanding orders for intangible assets and property, plant and equipment amounted to EUR 70,968 thousand as at December 31, 2019 (December 31, 2018: EUR 50,003 thousand). The Lenzing Group has long-term purchase obligations related to raw material supplies, in particular for wood, pulp, chemicals and energy.

As an international corporation, the Lenzing Group is exposed to a variety of legal and other risks. These risks are related, above all, to product defects, competition and antitrust law, patent law, tax law, employees and environmental protection (in particular, for environmental damage at production locations). It is impossible to predict the outcome of pending or future legal proceedings, and rulings by the courts or government agencies or settlement agreements can lead to expenses that are not fully covered by insurance which could have a material impact on the group's future financial position and financial performance. Additional information is provided in the risk report of the Lenzing Group's management report as at December 31, 2019.

The Group is currently involved in various legal proceedings as a result of its operating activities, particularly in the area of patent law. The Management Board assumes the proceedings that are known at the present time will not have a significant impact on the group's current financial position and financial performance or has created sufficient provisions for the related risks.

Note 42. Group companies

In addition to Lenzing AG, the Lenzing Group includes the following companies (list of group companies in accordance with Section 245a Para. 1 in conjunction with Section 265 Para. 2 of the Austrian Commercial Code):

Group companies		31/12/2019		31/12/2018	
	Currency	Share capital	Share in %	Share capital	Share in %
Consolidated companies					
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
BZL – Bildungszentrum Lenzing GmbH, Lenzing, Austria	EUR	43,604	75.00	43,604	75.00
LD Celulose S.A., Sao Paulo, Brazil	BRL	6,762,346	100.00	6,762,346	100.00
Lenzing Biocel Paskov a.s., Paskov, Czech Republic	CZK	280,000,000	100.00	280,000,000	100.00
Lenzing E-commerce (Shanghai) Co., Ltd., Shanghai, China	CNY	4,523,538	100.00	-	-
Lenzing Elyaf Anonim Şirketi, Istanbul, Turkey	TRY	3,500,000	100.00	3,500,000	100.00
Lenzing Fibers (Shanghai) Co., Ltd., Shanghai, China	USD	200,000	100.00	200,000	100.00
Lenzing Fibers GmbH, Heiligenkreuz, Austria	EUR	363,364	100.00	363,364	100.00
Lenzing Fibers Grimsby Limited, Grimsby, UK	GBP	1	100.00	1	100.00
Lenzing Fibers Holding GmbH, Lenzing, Austria	EUR	35,000	100.00	35,000	100.00
Lenzing Fibers (Hongkong) Ltd., Hong Kong, China	HKD	16,000,000	100.00	16,000,000	100.00
Lenzing Fibers Inc., Axis, USA	USD	10	100.00	10	100.00
Lenzing Fibers Ltd., Manchester, UK	GBP	1	100.00	1	100.00
Lenzing Global Finance GmbH, Munich, Germany	EUR	25,000	100.00	25,000	100.00
Lenzing Holding GmbH, Lenzing, Austria	EUR	35,000	100.00	35,000	100.00
Lenzing Korea Yuhan Hoesa, Seoul, Republic of Korea	KRW	280,000,000	100.00	280,000,000	100.00
Lenzing Land Holding LLC., Dover, USA	USD	10,000	100.00	10,000	100.00
Lenzing Modi Fibers India Private Limited, Mumbai, India	INR	1,173,036,090	96.48	1,166,176,090	96.46
Lenzing (Nanjing) Fibers Co., Ltd., Nanjing, China	USD	96,439,992	100.00	64,440,000	100.00
Lenzing Singapore Pte. Ltd., Singapore, Republic of Singapore	EUR	1,000,000	100.00	1,000,000	100.00
Lenzing Taiwan Fibers Ltd., Taipei, Taiwan	TWD	5,300,000	100.00	-	-
Lenzing Technik GmbH, Lenzing, Austria	EUR	35,000	100.00	35,000	100.00
Lenzing (Thailand) Co., Ltd., Bangkok, Thailand	THB	2,307,364,400	100.00	1,041,000,000	100.00
Penique S.A., Panama, Panama	USD	5,000	100.00	5,000	100.00
PT. South Pacific Viscose, Purwakarta, Indonesia[1]	IDR	72,500,000,000	92.85	72,500,000,000	92.85
Pulp Trading GmbH, Lenzing, Austria	EUR	40,000	100.00	40,000	100.00
Reality Paskov s.r.o., Paskov, Czech Republic	CZK	900,000	100.00	900,000	100.00
Wasserreinhaltungsverband Lenzing – Lenzing AG, Lenzing, Austria[2]	EUR	0	Membership	0	Membership
Companies accounted for using the equity method					
Associates					
EQUI-Fibres Beteiligungsgesellschaft mbH, Kelheim, Germany	EUR	2,000,000	20.00	2,000,000	20.00
Gemeinnützige Siedlungsgesellschaft m.b.H. für den Bezirk Vöcklabruck, Lenzing, Austria[3]	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					
LD Florestal S.A., Sao Paulo, Brazil	BRL	177,452,357	50.00	42,939,357	50.00
RVL Reststoffverwertung Lenzing GmbH, Lenzing, Austria	EUR	36,336	50.00	36,336	50.00
Wood Paskov s.r.o., Paskov, Czech Republic	CZK	2,000,000	50.00	2,000,000	50.00
Unconsolidated companies:					
European Precursor GmbH, Kelheim, Germany[4]	EUR	-	-	25,000	95.00

Comments:

1) The share held directly by the Lenzing Group equals 88.08 percent (December 31, 2018: 88.08 percent). A further 11.92 percent of the shares are held indirectly via PT. Pura Golden Lion, Jakarta, Indonesia, an associate of the Lenzing Group. The total calculated share therefore equals 92.85 percent.

2) The Lenzing Group participates through a membership. It holds 50 percent of the voting rights and can appoint half of the management board members. Since all assets are attributable to the respective landowner under company law, the entity is notionally a separate company (a so-called "silo structure"). Assets located on the Lenzing Group's land are therefore included in the consolidation.

3) This investment is not included in the consolidated financial statements as a subsidiary, even though the Lenzing Group holds 99.9 percent of the voting rights in the company. In light of the given circumstances, the Lenzing Group does not control this company because its power is limited and because the returns hardly vary or can hardly be influenced by the Lenzing Group. Significant influence is exercised by the Lenzing Group over the financial and operating policies of this company, in particular through representation on management bodies and participation in decision-making processes.

4) The liquidation process was completed in the 2019 financial year. This company was not included in consolidation because it was immaterial from the Group's perspective.

Note 43. Significant events after the end of the reporting period

In December 2019, the Lenzing Group and the Duratex Group announced the construction of a dissolving wood pulp plant in Brazil. In January and February 2020, the Duratex Group acquired a 49% share in LD Celulose S.A. as agreed. Lenzing AG holds a majority of 51% and thus continues to exercise control over this fully consolidated subsidiary. In the course of the transaction, assets amounting to the equivalent of approximately EUR 100 mn were contributed. The corresponding financing contracts are currently expected to be concluded in the second quarter of 2020.

Other than that, the Lenzing Group is not aware of any significant events occurring after the reporting date on December 31, 2019 which would have resulted in a different presentation of its financial position and financial performance.

Note 44. Authorization of the consolidated financial statements

These consolidated financial statements were approved on March 3, 2020 (consolidated financial statements as at December 31, 2018: March 5, 2019) by the Management Board for review by the Supervisory Board, presentation to the Annual General Meeting and subsequent publication. The Supervisory Board may require changes to the consolidated financial statements as part of its review.

Lenzing, March 3, 2020
Lenzing Aktiengesellschaft

The Management Board

Stefan Doboczky
Chief Executive Officer
Chairman of the Management Board

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

Thomas Obendrauf
Chief Financial Officer
Member of the Management Board

Stephan Sielaff
Chief Technology Officer
Member of the Management Board

Auditor's Report

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of Lenzing Aktiengesellschaft, Lenzing, and its subsidiaries (the Group), which comprise the consolidated Balance Sheet as at 31 December 2019, and the Consolidated Income Statement, Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and the Notes to the Consolidated Financial Statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code).

Basis for our Opinion

We conducted our audit in accordance with the EU Regulation 537/2014 ("EU Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group in accordance with Austrian Generally Accepted Accounting Principles and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. These matters were addressed in the context of our audit of the financial statements as a whole, however, we do not provide a separate opinion thereon.

Impairment of Cash-Generating Units ("CGU") "Fiber Site China" and "Fiber Site Indonesia"
See Note 18 "Intangible Assets".

Risk for the financial statements
In the financial year 2019 Lenzing Aktiengesellschaft identified triggering events that the cash-generating units "Fiber Site China" and "Fiber Site Indonesia" may be impaired. The estimated recoverable amounts (impairment test) of both cash generating units exceeded their carrying amounts.

The estimation of the recoverable amount of cash-generating units in accordance with IAS 36 requires assumptions and estimates, such as the estimated future cash flows, as well as the determination of the applicable discount rate.

There is a risk that assumptions and estimates used to estimate the recoverable amount are not appropriate. This could have a significant impact on the recoverable amount and therefore the carrying amounts of the cash-generating units in the consolidated statement of financial position, as well as the operating result in the consolidated income statement.

Our response
We assessed the impairment tests carried out by the company with support of our internal valuation experts as follows:

To assess the adequacy of the planned future cash flows, we gained an understanding of the planning process and compared the future cash flows used for impairment testing with the most recent budget approved by the supervisory board as well as the mid-term planning approved by the management board.

Additionally, we discussed the assumptions for growth rates and operating results with Management and ascertained to what degree historical data were considered by Management within the planning process and whether external factors were considered adequately. For the CGUs "Fiber Site China" and "Fiber Site Indonesia" we analyzed the supporting calculations prepared by the company to assess whether sales and purchase price developments as of or after the balance sheet date support the operating results assumed in the impairment tests.

Furthermore, we assessed the methodology used for impairment testing and the determination of the capital cost rates for compliance with the applicable standards. Our internal valuation experts compared the assumptions, on which the determination of capital cost rates were based, with market- and industry-specific reference values and verified the mathematical accuracy of the calculation.

Impairment of the cash generating Unit "Fiber Site USA" and project costs recognized as assets under construction
See Note 18 "Intangible Assets".

Risk for the financial statement
In September 2018 the Management of Lenzing Aktiengesellschaft decided to temporarily stop the construction of additional Lyocell capacities in Mobile, Alabama, USA. As a result of the postponement of the realization of the project in 2019 the company estimated the recoverable amount of the cash-generating unit "Fiber Site USA". The calculated recoverable amount (impairment test) exceeds the carrying amount of the cash- generating unit.

Furthermore, the Management Board of Lenzing Aktiengesellschaft evaluated whether there are uncertainties regarding the future economic benefits of the project costs recorded as assets under construction, by the time the Management Board expects the project to be continued. Subsequently, the recoverable amount of selected assets under construction was estimated which resulted in an impairment loss of EUR 12.9 mn (previous year: EUR 8.6 mn).

The calculation of the recoverable amount of cash-generating units in accordance with IAS 36 requires assumptions and estimates, such as the estimated future cash flows, as well as the determination of the applicable discount rate.

For the consolidated financial statements there is a risk that assumptions and estimates used to calculate the recoverable amount are not appropriate. This could have a significant impact on the recoverable amount and therefore the carrying amount of property, plant and equipment in the consolidated statement of financial position, as well as the operating result in the consolidated income statement.

Our response
We assessed the company's impairment test with support of our internal valuation specialist as well as the documentation of the future use of the project costs as follows:

Basically, we performed audit procedures equal to those outlined above under Impairment of Cash-Generating Units "Fiber Site China" and "Fiber Site Indonesia".

In addition, we discussed with management the intended continuation of the construction of additional Lyocell capacities at the mentioned site and assessed whether it appears sufficiently realistic.

In order to assess appropriateness of management's estimates about the future use of project costs recorded in assets under construction incurred for the construction of additional Lyocellcapacities, we critically assessed management's documentation. Additionally, we discussed with management all assumptions made in the calculation of the recoverable amount and evaluated their plausibility.

Recoverability of the equity investment in EQUI-Fibres Beteiligungsgesellschaft mbH (EFB) as well as the outstanding receivables due from the acquirer of EFB (including subsidiaries)
See Note 21 "Investments accounted for using the equity method".

Risk for the financial statements
Due to a fire in 2018 in a plant of EQUI-Fibres Beteiligungsgesellschaft mbH group ("EFB"), the impairment loss of EUR 1.3 mn recognized in the previous year and the ongoing reconstruction of the plant, Lenzing Aktiengesellschaft identified a triggering event in the current financial year 2019, that the investment in EFB may be impaired. Therefore Lenzing Aktiengesellschaft estimated the recoverable amount for the equity investment in EFB (impairment test) and recognized an impairment loss of EUR 3.4 mn in the financial year 2019.

Moreover, the expected credit loss for the receivables due from the acquirer of EFB (including subsidiaries) in accordance with IFRS 9 has been calculated. This resulted in a write-up for the outstanding purchase price receivable and long-term loans due from the acquirer (including subsidiaries) of EUR 5.5 mn.

The valuation of the recoverable amount of equity investments, which are accounted under the equity method, requires assumptions and estimates, in particular of the estimated future cash flows, as well as the determination of the applicable discount rate. The determination of the expected lifetime credit loss in accordance with IFRS 9 also requires estimates of default probabilities and repayments.

For the consolidated financial statements the risk remains that inadequate assumptions and estimations could have a material impact on the result of the impairment test and as such, on the carrying amount of equity investments and loans in the consolidated statement of financial position and on the financial result in the consolidated income statement.

Our response
We assessed the company's impairment test with support of our internal valuation specialist as well as calculation of the expected credit loss according to IFRS 9 as follows:

Our audit approach for the impairment test is similar to the one that is outlined above under Impairment of Cash-Generating Units "Fiber Site China" and "Fiber Site Indonesia".

Our valuation experts assessed the appropriateness of the assumptions in accordance with IFRS 9, on which the determination of the default probabilities and repayments were based, against market- and industry-specific reference values and verified the mathematical accuracy of the calculation. Moreover, we discussed with the company's managers and ascertained to which degree external factors and up-to-date information of the economic situation of the acquiring company, as a group, were given appropriate consideration.

We furthermore assessed the methodology used for impairment testing in accordance with IAS 36 or IFRS 9 and the determination of the capital cost rates for compliance with the applicable standards.

Responsibilities of Management and Audit Committee for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, Austrian Generally Accepted Accounting Principles as well as the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intents to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misprepresentations or override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.
- If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on Other Legal Requirements

Group Management Report

In accordance with the Austrian Generally Accepted Accounting Principles, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the group management report in accordance with the Austrian Generally Accepted Accounting Principles.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports as applied in Austria.

Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Group and its environment, we did not note any material misstatements in the group management report.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated financial statements, the group management report, and the auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information and to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact. If we conclude that there is a material misstatement of fact in other information, we must report that fact. We have nothing to report in this regard.

Additional Information in accordance with Article 10 EU Regulation

At the Annual General Meeting dated 17 April 2019, we were elected as auditors. We were appointed by the supervisory board on 3 June 2019. We have been the Company's auditors from the year ended 31 December 2017, without interruptions.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the Audit Committee, in accordance with Article 11 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 EU Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Group.

Engagement Partner

The engagement partner on this engagement is Mrs. Gabriele Lehner.

Linz, March 3, 2020

KPMG Austria GmbH

Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Gabriele Lehner

Austrian Chartered Accountant

This report is a translation of the original report in German, which is solely valid.
The financial statements, together with our auditor's opinion, may only be published if the financial statements and the management report are identical with the audited version attached to this report. Section 281 Paragraph 2 UGB (Austrian Commercial Code) applies.

Declaration of the Management Board

Declaration of the Management Board according to Section 124 (1) No. 3 of the Stock Exchange Act

We confirm to the best of our knowledge that the consolidated financial statements of the Lenzing Group as at December 31, 2019 that were prepared in accordance with the applicable accounting standards pursuant to International Financial Reporting Standards (IFRSs) give a true and fair view of the assets, liabilities, financial position and profit or loss of the Lenzing Group and that the group management report gives a true and fair view of the development and performance of the business and the position of the Lenzing Group, together with a description of the principal risks and uncertainties the Lenzing Group faces.

Lenzing, March 3, 2020
Lenzing Aktiengesellschaft

The Management Board

Stefan Doboczky
Chief Executive Officer
Chairman of the Management Board

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

Thomas Obendrauf
Chief Financial Officer
Member of the Management Board

Stephan Sielaff
Chief Technology Officer
Member of the Management Board

Lenzing Group Five-Year Overview

Key earnings and profitability figures

EUR mn	2019	2018	2017	2016	2015[1]
Revenue	2,105.2	2,176.0	2,259.4	2,134.1	1,976.8
EBITDA (earnings before interest, tax, depreciation and amortization)	326.9	382.0	502.5	428.3	290.1
EBITDA margin	15.5%	17.6%	22.2%	20.1%	14.7%
EBIT (earnings before interest and tax)	162.3	237.6	371.0	296.3	151.1
EBIT margin	7.7%	10.9%	16.4%	13.9%	7.6%
EBT (earnings before tax)	163.8	199.1	357.4	294.6	147.4
Net profit/loss for the year	114.9	148.2	281.7	229.1	128.1
Earnings per share in EUR	4.63	5.61	10.47	8.48	4.78
ROCE (return on capital employed)	5.3%	10.3%	18.6%	15.1%	8.1%
ROE (return on equity)	10.5%	12.9%	24.5%	22.6%	13.0%
ROI (return on investment)	5.6%	9.3%	14.5%	11.8%	6.3%

Key cash flow figures

EUR mn	2019	2018	2017	2016	2015
Gross cash flow	294.0	304.0	418.7	385.9	284.5
Cash flow from operating activities	244.6	280.0	271.1	473.4	215.6
Free cash flow	0.8	23.5	32.6	366.3	145.0
CAPEX	244.0	257.6	238.8	107.2	70.9
Liquid assets as at 31/12	581.0	254.4	315.8	570.4	355.3
Unused credit facilities as at 31/12	266.6	341.6	213.8	217.7	190.9

Key balance sheet figures

EUR mn as at 31/12	2019	2018	2017	2016	2015[1]
Total assets	3,121.1	2,630.9	2,497.3	2,625.3	2,410.6
Adjusted equity	1,559.3	1,553.0	1,527.7	1,390.5	1,218.6
Adjusted equity ratio	50.0%	59.0%	61.2%	53.0%	50.6%
Net financial debt	400.6	219.4	66.8	7.2	327.9
Net financial debt / EBITDA	1.2	0.6	0.1	0.0	1.1
Net debt	511.4	322.8	172.2	115.8	424.5
Net gearing	25.7%	14.1%	4.4%	0.5%	26.9%
Trading working capital	403.5	444.4	414.4	379.6	447.4
Trading working capital to annualized group revenue	20.7%	20.6%	19.4%	17.1%	21.6%

Key stock market figures

EUR	2019	2018	2017	2016	2015
Market capitalization in mn as at 31/12	2,198.3	2,109.4	2,810.3	3,053.3	1,846.6
Share price as at 31/12	82.80	79.45	105.85	115.00	69.55
Dividend per share	1.00[2]	5.00	5.00	4.20	2.00

Employees	2019	2018	2017	2016	2015
Number (headcount) as at 31/12	7,036	6,839	6,488	6,218	6,127

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).
2) On the basis of proposed distribution of profits.

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

Financial Calendar 2020

Publication Financial Calendar 2020 (acc. to Prime market regulation)

	Date
Final results 2019	Thu, March 12
Record date "Annual General Meeting"	Mon, April 06
76th Annual General Meeting	Thu, April 16
Quotation ex dividend	Mon, April 20
Record date "dividends"	Tue, April 21
Dividend distribution	Wed, April 22
Results 1st quarter 2020	Wed, May 06
Half-year results 2020	Wed, August 05
Results 3rd quarter 2020	Wed, November 04

Notes:

This English translation of the financial statements was prepared for the company's convenience only. It is a non-binding translation of the German financial statements. In the event of discrepancies between this English translation and the German original the latter shall prevail. This annual report also includes forward-looking statements based on current assumptions and estimates that are made to the best of its knowledge by Lenzing Group. Such 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 Group represent estimates that were made on the basis of the information available as at the date on which this annual report went to press. Actual results may differ from the forecast if the assumptions underlying the forecast fail to materialize or if risks arise at a level that was not anticipated. Calculation differences may arise when rounded amounts and percentages are summed. The annual report was prepared with great accuracy in order to ensure that the information provided herein is correct and complete. Rounding, typesetting and printing errors can nevertheless not be completely ruled out.

Glossary

Biobased
Products are considered biobased when they are made completely or in part from renewable raw materials. These products can be biodegradable or non-biodegradable.

Bioenergy
Bioenergy is energy that is generated from biomass. This term covers various types of energy like heat or electricity as well as biomass in which the energy is stored chemically. Renewable raw materials represent the main energy sources.

Biorefinery
A biorefinery is a refinery which processes biomass (e.g. wood) into various products. The underlying concept is based on the integrated, high-quality utilization of the biomass. The two biorefinery locations in Lenzing (Austria) and Paskov (Czech Republic) utilize 100 percent of the wood – in the form of pulp, biobased materials and bioenergy.

Cellulose
Cellulose is a structural component in the cell walls of plants and the raw material used for pulp production. The cellulose content of wood is about 40 percent.

Co-product
By-products recovered during fiber production.

Dissolving wood pulp
A special kind of pulp with distinct characteristics which is used to manufacture viscose, modal and lyocell fibers and other cellulose-based products; this grade of pulp is characterized by a higher alpha cellulose content and high purity.

FSC®
The Forest Stewardship Council® (FSC®) is an international non-profit organization for wood certification (https://ic.fsc.org/).

Integration
All steps in fiber production – from the raw material wood to pulp production and fiber production – are located at the same site.

ISO 14001
An international standard for the certification of environmental management systems.

ISO 9001
An international standard for the certification of quality management systems.

LENZING™ ECOVERO™
A viscose fiber developed by Lenzing with a very favorable ecological footprint, which can be identified in the finished products due to a special technology; this way, transparency is ensured along the entire processing chain.

LENZING™ Web Technology
A web formation process newly developd by Lenzing, which starts with dissolving wood pulp and produces a nonwoven material that consists of 100 percent lyocell filament yarn.

Lyocell fiber
A type of cellulose fiber developed by Lenzing, which is produced in a very environmentally friendly process; Lenzing markets these fibers under the TENCEL™ and VEOCEL™ brands. The production process is particularly environmentally friendly because of its closed loop and use of only one solvent.

Modal fiber
Modal is a viscose fiber which is refined under modified viscose production and spinning conditions. It is characterized by special softness and is the preferred fiber for high-quality underwear and similar products. The fibers have improved usage properties such as strength, dimensional stability, etc. Lenzing markets these fibers under the TENCEL™ brand.

Nonwovens
The nonwoven materials made from VEOCEL™ fibers are used for sanitary, medical and cosmetics applications.

OHSAS 18001
Occupational Health and Safety Assessment Series (OHSAS) is a certification process for work safety management systems.

PEFC™
The Programme for the Endorsement of Forest Certification Schemes™ (PEFC™) is an international non-profit organization for wood certification.

REFIBRA™
Lenzing introduced the REFIBRA™ technology at the beginning of 2017. As raw materials, this new technology uses pulp from fabric scraps resulting from the production of cotton clothing and pulp from wood. Fibers made with this technology are produced in the very environmentally friendly lyocell production process.

sCore TEN
The name of the Lenzing Group's corporate strategy stands for a steady focus on performance (scoring) and the strengthening of the core business (core) as well as for long-term growth with specialty fibers like TENCEL™ and VEOCEL™.

TENCEL™ Luxe
The first filament yarn made by Lenzing. It is produced from pulp and is not a fiber, but rather a finished yarn, which therefore does not have to be spun.

Viscose fibers
A cellulosic fiber produced from raw materials of plant origin (e.g. wood) using the viscose process.

Financial glossary

Adjusted equity
Equity including non-current and current government grants less the proportional share of deferred taxes on these government grants.

Adjusted equity ratio
Ratio of adjusted equity to total assets in percent.

CAPEX
Capital expenditures; i.e. acquisition of intangible assets, property, plant and equipment as per consolidated statement of cash flows.

Capital employed
Total assets minus the following: non-interest-bearing debt, cash and cash equivalents, current securities, investments accounted for using the equity method and financial assets.

Earnings per share
The share of net profit/loss for the year attributable to the shareholders of Lenzing AG divided by the weighted average number of issued shares, calculated according to IFRS (IAS 33 Earnings per Share); the precise derivation can be found under note 17 in the notes to the consolidated financial statements.

EBIT (earnings before interest and tax)
Earnings before interest and tax, or operating result; the precise derivation can be found in the consolidated income statement.

EBIT margin
EBIT as a percentage of revenue; represents the return on sales (ROS).

EBITDA (earnings before interest, tax, depreciation and amortization)
Operating result before interest, tax, depreciation on property, plant and equipment and right-of-use assets and amortization of intangible assets and before income from the release of investment grants. The precise derivation can be found in the consolidated income statement.

EBITDA margin
EBITDA as a percentage of revenue.

EBT (earnings before tax)
Profit/loss for the year before income tax expense. The precise derivation can be found in the consolidated income statement.

Equity
The equity item aggregates the equity instruments as defined by IFRS. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. This represents the funds provided to the entity by its owners.

Free cash flow
Cash flow from operating activities less cash flow from investing activities and net cash inflow from the sale and disposal of subsidiaries and other business areas plus acquisition of financial assets and investments accounted for using the equity method less proceeds from the sale/repayment of financial assets. Free cash flow corresponds to the readily available cash flow.

Gross cash flow
Gross cash flow equals cash flow from operating activities before change in working capital; the precise derivation can be found in the consolidated statement of cash flows.

IAS
Abbreviation for International Accounting Standard(s), which are internationally recognized accounting rules.

IFRS
Abbreviation for International Financial Reporting Standard(s), which are internationally recognized accounting rules.

Liquid assets
Cash and cash equivalents plus liquid securities and liquid bills of exchange.

Glossary

Liquid funds
Cash and cash equivalents plus current securities.

Market capitalization
Weighted average number of shares multiplied by the share price as at the reporting date.

Net debt
Interest-bearing financial liabilities (= current and non-current financial liabilities) less liquid assets plus provisions for pensions and severance payments.

Net financial debt
Interest-bearing financial liabilities (= non-current and current financial liabilities) less liquid assets.

Net financial debt/EBITDA
Net financial debt as a percentage of EBITDA.

Net gearing
Net financial debt as a percentage of adjusted equity.

Net profit/loss for the year
Profit/loss after tax; net profit/loss. The precise derivation can be found in the consolidated income statement.

Non-interest-bearing debt
Trade payables plus the following: puttable non-controlling interests, other liabilities, current tax liabilities, deferred tax liabilities and the proportional share of deferred taxes on government grants as well as provisions (excluding post-employment benefits).

NOPAT
Net operating profit after tax; operating result (EBIT) less the proportional share of current income tax expense.

Post-employment benefits
Provisions for severance payments and pensions.

ROCE (return on capital employed)
NOPAT as a percentage of average capital employed (average from January 1 and December 31).

ROE (Return on equity)
EBT (earnings before tax) as a percentage of average adjusted equity (average from January 1 and December 31).

ROI (Return on investment)
EBIT (earnings before tax) as a percentage of average total assets (average from January 1 and December 31).

Total assets
Total of non-current and current assets or the total of equity and non-current and current liabilities. The precise derivation can be found in the consolidated statement of financial position.

Trading working capital
Inventories plus trade receivables less trade payables.

Trading working capital to annualized group revenue
Trading working capital as a percentage of the latest reported quarterly group revenue x 4.

Working capital
Net current assets. Inventories plus trade receivables and other non-current and current assets less current provisions, trade payables and other non-current and current liabilities.

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