Interim Report 01-03/2018
Lenzing Group

Q1 2018

Selected Indicators of the Lenzing Group

Key earnings and profitability figures

EUR mn	01-03/2018	01-03/2017	Change
Revenue	550.3	586.2	(6.1) %
EBITDA (earnings before interest, tax, depreciation and amortization)	101.6	135.1	(24.8) %
EBITDA margin	18.5 %	23.0 %	
EBIT (earnings before interest and tax)	68.9	102.3	(32.7) %
EBIT margin	12.5 %	17.5 %	
EBT (earnings before tax)	64.9	97.3	(33.4) %
Net profit for the year (/the period)	50.0	75.0	(33.3) %
Earnings per share in EUR	1.89	2.75	(31.3) %

Key cash flow figures

EUR mn	01-03/2018	01-03/2017	Change
Gross cash flow	85.1	121.8	(30.2) %
Cash flow from operating activities	108.6	106.1	2.4 %
Free cash flow	50.4	79.3	(36.5) %
CAPEX	58.9	26.9	119.2 %
EUR mn	**31/03/2018**	**31/12/2017**	**Change**
Liquid assets	366.8	315.8	16.1 %
Unused credit facilities	262.9	213.8	23.0 %

Key balance sheet figures

EUR mn	31/03/2018	31/12/2017	Change
Total assets	2,602.1	2,497.3	4.2 %
Adjusted equity	1,574.5	1,527.7	3.1 %
Adjusted equity ratio	60.5 %	61.2 %	
Net financial debt	11.6	66.8	(82.6) %
Net debt	116.2	172.2	(32.5) %
Net gearing	0.7 %	4.4 %	
Trading working capital	407.3	414.4	(1.7) %
Trading working capital to annualized group revenue	18.5 %	19.4 %	

Key stock market figures

EUR	31/03/2018	31/12/2017	Change
Market capitalization in mn	2,663.0	2,810.3	(5.2) %
Share price	100.30	105.85	(5.2) %

Employees	31/03/2018	31/12/2017	Change
Number (headcount)	6,569	6,488	1.2 %

The above key financial figures are derived primarily from the condensed consolidated interim financial statements and the consolidated financial statements of the previous year of the Lenzing Group. Additional details are provided in "Notes on the Financial Performance Indicators of the Lenzing Group", available at the following link https://www.lenzing.com/Notes-Financial-Performance-Indicators-Lenzing-Group-2018-Q1, and in the condensed consolidated interim financial statements, resp. the consolidated financial statements of the previous year of the Lenzing Group. Rounding differences can occur in the presentation of rounded amounts and percentag rates.

Management Report 01-03/2018

The upturn in the global economy continued to gain both strength and scope during the first quarter of 2018. Estimates by the International Monetary Fund place growth at 3.9 percent in 2018 and 2019 – following the 3.8 percent generated in 2017. The economic environment has benefited from a noticeable improvement in global trade which resulted, above all, from rising investments in the industrialized countries, steady and strong growth in the emerging Asian countries and the partial recovery of raw material exports. However, there is continued uncertainty over the Brexit negotiations between Great Britain and the European Union as well as the growing protectionism in world trade.

The global fiber markets were characterized by different price trends during the first quarter of 2018. Cotton prices remained stable, while an increase in production volumes and stocks and the resulting expected price decline were offset, above all, by strong demand for textiles in the emerging countries. The polyester market saw an end to the upward price trend which characterized the previous year due to constant high capacity utilization and a parallel decline in demand. Standard viscose prices were stable during the first two months of 2018, but weakened slightly towards the end of the first quarter. This development was triggered primarily by the uncertainty which followed the announcement of new capacity in 2018.

Against the backdrop of these developments, the Lenzing Group got off to a good start in 2018. As expected revenue and earnings were lower than the first quarter of the record 2017 financial year. The disciplined implementation of the sCore TEN corporate strategy – with its focus on specialty fibers and greater customer intimacy – is continuing. Work is also proceeding on a number of projects: the expansion of specialty fiber capacity in Heiligenkreuz (Austria) and Mobile (Alabama, USA), planning for the construction of the next state-of-the-art lyocell fiber production facility in Prachinburi (Thailand) and the expansion and modernization of the dissolving wood pulp plants in Lenzing (Austria) and Paskov (Czech Republic).

Lenzing entered a new phase of market positioning in February 2018 with the introduction of the TENCEL™ brand as the umbrella brand for specialty fiber textile applications at the Première Vision in Paris, one of the world's most important textile trade fairs. The new brand strategy sharpens Lenzing's corporate and product profile for customers and partners along the value chain and improves the company's presentation to consumers as a sustainable innovation leader. The most important element of this new brand strategy is a brand architecture with a focus on fewer brands and a strong message to consumers. The new Lenzing master brand, which was introduced in March, underscores the company's strengths.

Revenue was 6.1 percent lower year-on-year at EUR 550.3 mn in the first quarter of 2018. This decline resulted primarily from currency effects.

The cost of material and other purchased services rose slightly year-on-year as the result of higher raw material and pulp prices. Personnel expenses were increased by wage and salary raises mandated by collective agreements, additional hiring for the expansion of production capacity and the more intensive direct servicing of customers in our sales and marketing offices.

EBITDA (earnings before interest, tax, depreciation and amortization) fell 24,8 percent below the first quarter of the previous year to EUR 101.6 mn for the reporting period mainly due to softening prices for commodity viscose and increasing costs for key raw materials. EBIT (earnings before interest and tax) was 32.7 percent lower at EUR 68.9 mn. EBT (earnings before tax) declined by 33.4 percent to EUR 64.9 mn. Net profit for the period also fell by one-third to EUR 50 mn. Earnings per share equaled EUR 1.89, compared with EUR 2.75 in the first quarter of the previous year.

The major changes in the balance sheet involve trade receivables and trade payables, inventories and cash and cash equivalents. These positions were influenced primarily by the increase in investments and higher liquidity which resulted from the positive cash flow.

CAPEX (investments in intangible assets, property, plant and equipment) more than doubled from EUR 26.9 mn in the first quarter of 2017 to EUR 58.9 mn in the first quarter of 2018. This increase is attributable, above all, to the capacity expansion projects in Heiligenkreuz and Mobile as well as the expansion of the pulp plant in Lenzing. Gross cash flow fell by 30.2 percent to EUR 85.1 mn as a result of less favorable currency relations, softening prices for commodity viscose and increasing costs for key raw materials. Liquid assets increased by 16.1 percent from the beginning of the year to EUR 366.8 mn as at March 31, 2018. Net financial debt declined from EUR 66.8 mn as at December 31, 2017 to EUR 11.6 mn at the end of the first quarter of 2018. Based on the very successful 2017 financial year, which was the best in the company's history, the Management Board and Supervisory Board presented a proposal to the 74th Annual General Meeting on April 12, 2018 calling for the payment of a EUR 3.00 dividend per share plus a special dividend of EUR 2.00 per share (compared with EUR 1.20 per share in 2017). This recommendation was approved by a clear majority of the shareholders.

Outlook

The International Monetary Fund expects a further acceleration in global economic growth to 3.9 percent in 2018. However, growing protectionist tendencies in the political arena represent a source of uncertainty. Export-oriented companies in the Eurozone will also be faced with an additional challenge from the currency environment.

Developments on the fiber markets should remain positive, but with continuing volatility. The rising demand for cotton should support prices and will help inventory levels to remain at the current levels despite the increase in production. Polyester fiber prices have stabilized after the increase in previous years.

The wood-based cellulose fiber segment, which is relevant for Lenzing, should see further strong demand. After years of moderate capacity expansion in the viscose sector, significant additional volumes are expected to enter the market in 2018. This was reflected in rising pressure on commodity viscose prices beginning in the first quarter and a further increase during the second quarter. The Lenzing Group is very well positioned in this market environment with its corporate strategy sCore TEN and will continue its consistent focus on growth with specialty fibers.

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

Lenzing, May 3, 2018
Lenzing Aktiengesellschaft

The Management Board

Stefan Doboczky
Chief Executive Officer
Chairman of the
Management Board

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

Thomas Obendrauf
Chief Financial Officer
Member of the
Management Board

Heiko Arnold
Chief Technology Officer
Member of the
Management Board

Consolidated Income Statement (Condensed)

for the period from January 1 to March 31, 2018

EUR mn

	01-03/2018	01-03/2017
Revenue	550.3	586.2
Change in inventories of finished goods and work in progress	(15.0)	(21.4)
Own work capitalized	15.1	9.3
Other operating income	12.8	12.7
Cost of material and other purchased services	(308.6)	(299.2)
Personnel expenses	(91.0)	(85.5)
Other operating expenses	(62.1)	(66.9)
Earnings before interest, tax, depreciation and amortization (EBITDA)[1]	**101.6**	**135.1**
Amortization of intangible assets and depreciation of property, plant and equipment and income from the release of investment grants	(32.7)	(32.8)
Earnings before interest and tax (EBIT)[1]	**68.9**	**102.3**
Financial result	(3.8)	(3.4)
Allocation of profit or loss to puttable non-controlling interests	(0.3)	(1.6)
Earnings before tax (EBT)[1]	**64.9**	**97.3**
Income tax expense	(14.8)	(22.3)
Net profit for the period	**50.0**	**75.0**
Net profit for the period attributable to shareholders of Lenzing AG	50.1	73.0
Net profit for the period attributable to non-controlling interests	(0.1)	2.0
Earnings per share	**EUR**	**EUR**
Diluted = basic	1.89	2.75

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

Consolidated Statement of Comprehensive Income
(Condensed)

for the period from January 1 to March 31, 2018

EUR mn	01-03/2018	01-03/2017
Net profit for the period as per consolidated income statement	**50.0**	**75.0**
Items that will not be reclassified subsequently to profit or loss		
Financial assets measured at fair value through other comprehensive income	0.6	0.0
Income tax relating to these components of other comprehensive income	(0.1)	0.0
	0.4	**0.0**
Items that may be reclassified to profit or loss		
Foreign operations – foreign currency translation differences	(8.4)	(7.9)
Available-for-sale financial assets	0.0	1.3
Financial assets measured at fair value through other comprehensive income	(0.1)	0.0
Cash flow hedges	(0.9)	4.6
Income tax relating to these components of other comprehensive income	0.1	(1.3)
Investments accounted for using the equity method – share of other comprehensive income (net of tax)	(0.1)	0.0
	(9.4)	**(3.4)**
Other comprehensive income – net of tax	**(9.0)**	**(3.4)**
Total comprehensive income	**41.1**	**71.6**
Attributable to shareholders of Lenzing AG	42.0	70.2
Attributable to non-controlling interests	(0.9)	1.5

Consolidated Statement of Financial Position
(Condensed)

as at March 31, 2018

EUR mn

Assets	31/03/2018	31/12/2017
Intangible assets and property, plant and equipment	1,410.1	1,387.6
Investments accounted for using the equity method and financial assets	52.6	44.9
Deferred tax assets	4.6	4.0
Other non-current assets	13.1	13.8
Non-current assets	**1,480.5**	**1,450.2**
Inventories	333.2	340.1
Trade receivables	321.9	292.8
Other current assets	113.9	107.8
Cash and cash equivalents	352.5	306.5
Current assets	**1,121.6**	**1,047.1**
Total assets	**2,602.1**	**2,497.3**

Equity and liabilities	31/03/2018	31/12/2017
Equity attributable to shareholders of Lenzing AG	1,522.2	1,476.3
Non-controlling interests	30.5	31.6
Equity	**1,552.7**	**1,507.9**
Financial liabilities	252.8	255.3
Deferred tax liabilities	53.5	52.7
Provisions	131.0	131.7
Other non-current liabilities	43.9	40.1
Non-current liabilities	**481.1**	**479.8**
Financial liabilities	125.6	127.3
Trade payables	247.8	218.4
Provisions	104.3	95.7
Other current liabilities	90.6	68.1
Current liabilities	**568.3**	**509.5**
Total equity and liabilities	**2,602.1**	**2,497.3**

Consolidated Statement of Changes in Equity
(Condensed)

for the period from January 1 to March 31, 2018

EUR mn

	Share capital	Capital reserves	Other-reserves	Retained earnings	Equity attributable to shareholders of Lenzing AG	Non-controlling interests	Equity
As at 01/01/2017	**27.6**	**133.9**	**23.5**	**1,151.1**	**1,336.1**	**32.4**	**1,368.5**
Total comprehensive income	0.0	0.0	(2.8)	73.0	70.2	1.5	71.6
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 31/03/2017	**27.6**	**133.9**	**20.7**	**1,224.1**	**1,406.3**	**33.8**	**1,440.2**
As at 01/01/2018 (previously)	**27.6**	**133.9**	**(1.6)**	**1,316.4**	**1,476.3**	**31.6**	**1,507.9**
First-time adoption of IFRS 9 (Financial Instruments)[1]	0.0	0.0	4.0	0.0	3.9	0.0	3.9
As at 01/01/2018 (adjusted)	**27.6**	**133.9**	**2.4**	**1,316.4**	**1,480.3**	**31.6**	**1,511.8**
Total comprehensive income	0.0	0.0	(8.1)	50.1	42.0	(0.9)	41.1
Acquisition/disposal of non-controlling interests and other changes in the scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	(0.2)	(0.2)
As at 31/03/2018	**27.6**	**133.9**	**(5.8)**	**1,366.5**	**1,522.2**	**30.5**	**1,552.7**

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

Consolidated Statement of Cash Flows (Condensed)

for the period from January 1 to March 31, 2018

		EUR mn 01-03/2018	01-03/2017
Net profit for the period		**50.0**	**75.0**
+	Amortization of intangible assets and depreciation of property, plant and equipment	33.4	33.4
−/+	Other non-cash income / expenses	1.6	13.4
Gross cash flow		**85.1**	**121.8**
+/−	Change in inventories	4.3	1.2
+/−	Change in receivables	(28.6)	(31.5)
+/−	Change in liabilities	47.9	14.7
Change in working capital		**23.5**	**(15.7)**
Cash flow from operating activities		**108.6**	**106.1**
−	Acquisition of intangible assets, property, plant and equipment (CAPEX)	(58.9)	(26.9)
−	Acquisition of financial assets and investments accounted for using the equity method	(0.6)	(0.4)
+	Proceeds from the sale of intangible assets, property, plant and equipment	0.7	0.0
+	Proceeds from the sale/repayment of financial assets and sale of investments accounted for using the equity method	1.8	0.7
+	Net inflow from the sale and disposal of subsidiaries and other business areas	0.0	0.6
Cash flow from investing activities		**(57.0)**	**(25.9)**
−	Distribution to shareholders	(0.2)	0.0
+	Investment grants	0.2	0.0
+	Increase in other financial liabilities	6.5	1.2
−	Repayment of bonds and private placements	0.0	0.0
−	Repayment of other financial liabilities	(10.7)	(32.1)
Cash flow from financing activities		**(4.2)**	**(30.9)**
Total change in liquid funds		**47.4**	**49.3**
Liquid funds at the beginning of the year		306.5	559.6
Currency translation adjustment relating to liquid funds		(1.3)	(2.2)
Liquid funds at the end of the period		**352.5**	**606.6**
Additional information on payments in the cash flow from operating activities:			
Interest payments received		0.4	1.0
Interest payments made		0.9	1.7
Income taxes paid		13.5	10.0

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

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

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

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Note:

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

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

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

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