

**Lenzing**

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Interim Report 01-09/2019  
Lenzing Group

# Selected Indicators of the Lenzing Group

## Key earnings and profitability figures

EUR mn	01-09/2019	01-09/2018	Change
Revenue	1,617.9	1,636.2	(1.1)%
EBITDA (earnings before interest, tax, depreciation and amortization)	266.9	290.6	(8.1)%
EBITDA margin	16.5%	17.8%	
EBIT (earnings before interest and tax)	153.5	190.3	(19.3)%
EBIT margin	9.5%	11.6%	
EBT (earnings before tax)	151.9	177.9	(14.6)%
Net profit for the year (/the period)	112.9	133.8	(15.6)%
Earnings per share in EUR	4.41	5.06	(12.8)%

## Key cash flow figures

EUR mn	01-09/2019	01-09/2018	Change
Gross cash flow	242.5	223.4	8.5%
Cash flow from operating activities	171.0	247.3	(30.8)%
Free cash flow	11.4	74.3	(84.6)%
CAPEX	159.7	174.1	(8.3)%

  

EUR mn	30/09/2019	31/12/2018	Change
Liquid assets	260.6	254.4	2.4%
Unused credit facilities	219.4	341.6	(35.8)%

## Key balance sheet figures

EUR mn	30/09/2019	31/12/2018	Change
Total assets	2,801.0	2,630.9	6.5%
Adjusted equity	1,553.5	1,553.0	0.0%
Adjusted equity ratio	55.5%	59.0%	
Net financial debt	372.1	219.4	69.6%
Net debt	481.5	322.8	49.2%
Net gearing	24.0%	14.1%	
Trading working capital	474.4	444.4	6.7%
Trading working capital to annualized group revenue	22.4%	20.6%	

## Key stock market figures

EUR	30/09/2019	31/12/2018	Change
Market capitalization in mn	2,345.7	2,109.4	11.2%
Share price	88.35	79.45	11.2%

## Employees

	30/09/2019	31/12/2018	Change
Number (headcount)	6,988	6,839	2.2%

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-2019-Q3>, and in the condensed consolidated interim financial statements, resp. the consolidated financial statements of the previous year of the Lenzing Group. Rounding differences can occur in the presentation of rounded amounts and percentage rates.

# Management Report 01-09/2019

The global economy<sup>1</sup> recorded only subdued growth in the first three quarters of the year, among other things due to trade tensions between the USA and China. The risk of a no-deal Brexit and growing geopolitical tensions led to additional uncertainty. In its World Economic Outlook, the International Monetary Fund projected a decline in global growth from 3.6 percent in 2018 to 3 percent in 2019, the lowest level since 2008/2009. A growth rate of 3.4 percent is forecast for 2020.

The trade conflict between the USA and China led to uncertainty and significantly reduced demand, with simultaneous oversupply, throughout the textile value chain, resulting in underutilization at fiber producers' plants, spinning plants and their downstream customers. Therefore, there is substantial pressure on all fiber types in the global fiber markets<sup>2</sup>. The prices for cotton, polyester and standard viscose dropped, in part significantly, while the prices for wood-based specialty fibers held up.

After the cotton market recovered slightly in the first quarter of 2019, prices fell again in the second quarter as another high-yield harvest is expected for the 2019/2020 season. In the third quarter, the decline was slightly weaker, but still noticeable.

Although the polyester market had a strong start to the year 2019, demand has dropped significantly since the Chinese New Year and fell short of expectations. As raw material prices declined, prices continued to drop in the course of the year.

Having started at a level of 13,560 CNY/ton, the prices for standard viscose continued to decrease in 2019 due to new capacities and a decline in demand, and amounted to 11,100 CNY/ton in June. After stabilizing briefly, prices recorded another significant drop and reached a new historic low of 10,500 CNY/ton in September.

The prices for wood-based specialty fibers developed positively in the first three quarters. The decline in demand for textile fibers in general, coupled with the significant price difference to other fiber types, put a strain on Lenzing's partners along the value chain for specialty fibers. Lenzing will continue to specifically support its value chain partners.

The Lenzing Group continued its solid business development in the third quarter of 2019 although the significantly lower prices for standard viscose were tangible. The disciplined implementation of the sCore TEN strategy and the focus on specialty fibers once again had a positive impact on the revenue and earnings development and the effect caused by the historically low prices for standard viscose was considerably reduced.

Revenue decreased by 5.6 percent in the third quarter of 2019 and amounted to EUR 529.4 mn. EBITDA (earnings before interest, tax, depreciation and amortization) declined by 10.6 percent to EUR 85.7 mn and EBIT (earnings before interest and tax) fell by 22.2 percent to EUR 47.9 mn. EBT (earnings before tax) dropped by 13.6 percent to EUR 49.3 mn and net profit was down 15 percent to EUR 36.1 mn.

Revenue of the first three quarters declined by 1.1 percent year-on-year to EUR 1.62 bn, which was primarily attributable to the falling standard viscose prices. Based on a further product mix optimization and higher prices for specialty fibers, the decrease in revenue was largely offset. The share of specialty fibers in revenue rose from 44.1 percent in the comparative period of the previous year to 49.8 percent. More favorable currency relations also had a positive impact on the revenue development.

EBITDA (earnings before interest, tax, depreciation and amortization) recorded a decline by 8.1 percent to EUR 266.9 mn during the same period, leading to a lower EBITDA margin of 16.5 percent compared with 17.8 percent in the first three quarters of the previous year. EBIT (earnings before interest and tax) fell by 19.3 percent to EUR 153.5 mn. The EBIT margin dropped to 9.5 percent (from 11.6 percent in the comparative period). EBT (earnings before tax) was down 14.6 percent to EUR 151.9 mn and net profit decreased by 15.6 percent to EUR 112.9 mn. Earnings per share fell by 12.8 percent to EUR 4.41.

Gross cash flow in the first three quarters of 2019 rose by 8.5 percent compared to the first three quarters of the previous year and amounted to EUR 242.5 mn. This increase was above all due to non-cash effects in net profit for the period. Cash flow from operating activities declined by 30.8 percent to EUR 171 mn during the same period. Free cash flow was down 84.6 percent to EUR 11.4 mn due to continued high investing activities.

CAPEX (investments in intangible assets and property, plant and equipment) dropped by 8.3 percent to EUR 159.7 mn during the reporting period. This decline is primarily attributable to the completion of the expansion project in Heiligenkreuz in 2018 and the ongoing planning for major projects in Brazil and Thailand, which will only have an effect on the investment volume in the coming quarters.

Total assets increased by 6.5 percent in comparison with December 31, 2018 and amounted to EUR 2.8 bn as at September 30, 2019. Adjusted equity remains unchanged at EUR 1.6 bn; the adjusted equity ratio decreased from 59 percent to 55.5 percent during the reporting period. Net financial debt, at EUR 372.1 mn as at September 30, 2019 exceeded the figure of December 31, 2018 of EUR 219.4 mn due to the high investment volume and the related financing requirements, but is still at a solid level. Trading working capital rose by 6.7 percent to EUR 474.4 mn in the re-reporting period mainly due to higher inventories (especially raw materials and supplies). The ratio of trading working capital to annualized Group revenue rose from

<sup>1</sup> Source: IMF, World Economic Outlook, October 2019

<sup>2</sup> Sources: International Cotton Advisory Committee (ICAC), IMF, Cotton Outlook, CCF Group (China Chemical Fibers and Textiles Consulting), Food and Agriculture Organization (FAO)

20.6 percent at December 31, 2018 to 22.4 percent at September 30, 2019.

In the first three quarters of 2019, investment activities in the Lenzing Group focused on the expansion of the share of specialty fibers in line with the sCore TEN strategy.

Lenzing puts the focus on stable and profitable growth as well as an improvement of the ecological footprint of the textile and nonwovens industries by expanding the production of specialty fibers. The decision to build a state-of-the-art lyocell plant with a capacity of 100,000 tons in Prachinburi (Thailand) is the next logical step to achieve this goal. In the third quarter, Lenzing chose Wood Plc as a partner for detailed engineering, purchasing and construction management and supervision; the related Engineering, Procurement and Construction Management contract (EPCM) was signed on August 15. In addition, the conversion of the production capacities from standard viscose to LENZING™ ECOVERO™ branded specialty viscose fibers was also continued during the reporting period.

Increasing the self-supply with dissolving wood pulp is another key element of the sCore TEN strategy. Lenzing and the Brazilian company Duratex continue to advance the plannings and preparations for the construction of a 450,000 ton dissolving wood pulp plant in the state of Minas Gerais (Brazil). The basic engineering, site grading and the applications for required permits are proceeding according to plan. In addition, the expansion and modernization of the pulp plant in Lenzing were completed in the third quarter.

Lenzing will use blockchain technology to support its TENCEL™ branded fiber business, ensuring complete transparency and traceability for brands and consumers of its fibers in the finished garment. In the second quarter Lenzing announced a cooperation with the platform of the technology company TextileGenesis™ to accomplish this ambition; in the third quarter, Lenzing presented its first pilot project at the Hong Kong Fashion Summit.

The TENCEL™ brand's visibility was further increased through co-branding during the reporting period. The digital marketing concept "Where to buy" was introduced on the product website [www.tencel.com](http://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 110 partners, including brands like H&M, Levi's, Allbirds, Victoria Secret, Esprit, Pottery Barn and Asos.

Lenzing invests more than EUR 100 mn in energy-saving measures, the conversion to renewable energies and in new technologies, thus strengthening its position as a front runner in climate protection both in the production industry and in particular also in the fiber industry. In the second quarter Lenzing announced its ambitious climate strategy. The goal is to reduce net emissions of greenhouse gases to zero by 2050. An important milestone on the way to becoming climate-neutral is set for the year 2030. By then Lenzing has committed to reduce emissions per ton of fibers and pulp by 50 percent compared with 2017.

# Outlook

The International Monetary Fund expects a slowdown of global economic growth to 3 percent in 2019, mainly driven by increasing protectionist tendencies and growing geopolitical tensions. The currency environment in the regions relevant to Lenzing will remain volatile.

Global fiber demand has weakened. Trade conflicts have caused nervousness and declining demand throughout the textile value chain. According to preliminary calculations, cotton inventory levels will continue to increase in the 2019/20 season because a good harvest is expected. The price levels for cotton and polyester are expected to remain subdued. Capacity expansions for standard viscose, coupled with sluggish demand due to the trade conflicts, caused higher pressure on prices, which fell to a new historic low in the third quarter of 2019. In specialty fibers, the Lenzing Group expects a comparatively positive development of its business.

Driven by the challenging situation in standard viscose and low paper pulp prices, prices for dissolving wood pulp remain on 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 very challenging and volatile market environment in general, paired with erratic developments in the trade disputes between the major economic blocks plus the high level of uncertainty in the textile value chain, significantly impacts earnings visibility. Based on the above mentioned economic environment, the Lenzing Group expects the result for 2019 to be slightly below the level of 2018. Above developments reassure the Lenzing Group in its chosen strategy sCore TEN. Lenzing is very well positioned in this market environment and will continue to focus growth with specialty fibers.

Lenzing, October 31, 2019

**Lenzing Aktiengesellschaft**

## The Management Board

### **Stefan Doboczky**

Chief Executive Officer  
Chairman of the  
Management Board

### **Robert van de Kerkhof**

Chief Commercial Officer  
Member of the  
Management Board

### **Thomas Obendrauf**

Chief Financial Officer  
Member of the  
Management Board

### **Heiko Arnold**

Chief Technology Officer  
Member of the  
Management Board



# Consolidated Income Statement (condensed)

for the period from January 1 to September 30, 2019

	EUR mn			
	07-09/2019	07-09/2018	01-09/2019	01-09/2018
Revenue	529.4	560.9	1,617.9	1,636.2
Change in inventories of finished goods and work in progress	5.0	1.9	21.6	4.7
Own work capitalized	13.3	11.6	36.7	39.8
Other operating income	18.2	11.7	65.5	41.2
Cost of material and other purchased services	(314.8)	(331.3)	(974.7)	(957.4)
Personnel expenses	(99.1)	(96.4)	(299.9)	(282.4)
Other operating expenses	(66.3)	(62.7)	(200.3)	(191.6)
<b>Earnings before interest, tax, depreciation and amortization (EBITDA)<sup>1</sup></b>	<b>85.7</b>	<b>95.8</b>	<b>266.9</b>	<b>290.6</b>
Amortization of intangible assets and depreciation of property, plant and equipment and income from the release of investment grants	(37.8)	(34.2)	(113.4)	(100.3)
<b>Earnings before interest and tax (EBIT)<sup>1</sup></b>	<b>47.9</b>	<b>61.6</b>	<b>153.5</b>	<b>190.3</b>
Financial result	1.4	(3.7)	(1.6)	(11.7)
Allocation of profit or loss to and measurement result of puttable non-controlling interests	0.0	(0.8)	0.0	(0.7)
<b>Earnings before tax (EBT)<sup>1</sup></b>	<b>49.3</b>	<b>57.0</b>	<b>151.9</b>	<b>177.9</b>
Income tax expense	(13.2)	(14.5)	(39.0)	(44.1)
<b>Net profit for the period</b>	<b>36.1</b>	<b>42.5</b>	<b>112.9</b>	<b>133.8</b>
Net profit for the period attributable to shareholders of Lenzing AG	38.4	42.9	117.1	134.3
Net profit attributable to non-controlling interests	(2.2)	(0.4)	(4.2)	(0.4)
<b>Earnings per share</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
Diluted = basic	1.45	1.62	4.41	5.06

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

EBIT: Operating result, resp. earnings before interest and tax.

EBT: Earnings before tax.

# Consolidated Statement of Comprehensive Income (condensed)

for the period from January 1 to September 30, 2019

	EUR mn			
	07-09/2019	07-09/2018	01-09/2019	01-09/2018
<b>Net profit for the period as per consolidated income statement</b>	<b>36.1</b>	<b>42.5</b>	<b>112.9</b>	<b>133.8</b>
<b>Items that will not be reclassified subsequently to profit or loss</b>				
Remeasurement of defined benefit liability	0.0	(0.6)	(6.7)	(0.6)
Financial assets measured at fair value through other comprehensive income	0.0	0.1	1.1	1.0
Income tax relating to these components of other comprehensive income	0.0	0.2	1.4	0.0
	<b>0.0</b>	<b>(0.2)</b>	<b>(4.2)</b>	<b>0.4</b>
<b>Items that may be reclassified to profit or loss</b>				
Foreign operations – foreign currency translation differences	14.2	3.2	21.9	12.4
Financial assets measured at fair value through other comprehensive income	0.0	(0.1)	(0.1)	(0.1)
Cash flow hedges	(5.1)	3.3	(0.1)	(9.7)
Income tax relating to these components of other comprehensive income	1.2	(0.6)	0.1	2.0
Investments accounted for using the equity method - share of other comprehensive income (net of tax)	(0.6)	(0.1)	(0.3)	(0.1)
	<b>9.7</b>	<b>5.8</b>	<b>21.4</b>	<b>4.5</b>
<b>Other comprehensive income – net of tax</b>	<b>9.7</b>	<b>5.5</b>	<b>17.3</b>	<b>4.9</b>
<b>Total comprehensive income</b>	<b>45.8</b>	<b>48.1</b>	<b>130.2</b>	<b>138.8</b>
Attributable to shareholders of Lenzing AG	46.9	48.2	133.0	138.1
Attributable to non-controlling interests	(1.1)	(0.1)	(2.8)	0.6

# Consolidated Statement of Financial Position (condensed)

as at September 30, 2019

Assets	EUR mn	
	30/09/2019	31/12/2018
Intangible assets, property, plant and equipment and right-of-use assets	1,614.5	1,516.7
Investments accounted for using the equity method and financial assets	56.9	50.0
Deferred tax assets	5.6	5.1
Other non-current assets	33.6	23.6
<b>Non-current assets</b>	<b>1,710.6</b>	<b>1,595.4</b>
Inventories	410.1	396.5
Trade receivables	309.5	299.6
Other current assets	124.9	95.5
Cash and cash equivalents	246.0	243.9
<b>Current assets</b>	<b>1,090.5</b>	<b>1,035.5</b>
<b>Total assets</b>	<b>2,801.0</b>	<b>2,630.9</b>
<b>Equity and liabilities</b>	<b>30/09/2019</b>	<b>31/12/2018</b>
Equity attributable to shareholders of Lenzing AG	1,502.0	1,501.7
Non-controlling interests	29.2	32.2
<b>Equity</b>	<b>1,531.2</b>	<b>1,533.9</b>
Financial liabilities	451.7	307.6
Deferred tax liabilities	36.0	50.4
Provisions	132.7	126.5
Other non-current liabilities	21.7	21.0
<b>Non-current liabilities</b>	<b>642.1</b>	<b>505.5</b>
Financial liabilities	181.0	166.2
Trade payables	245.2	251.7
Provisions	108.6	107.9
Other current liabilities	93.0	65.7
<b>Current liabilities</b>	<b>627.7</b>	<b>591.5</b>
<b>Total equity and liabilities</b>	<b>2,801.0</b>	<b>2,630.9</b>



# Consolidated Statement of Changes in Equity (condensed)

for the period from January 1 to September 30, 2019

	EUR mn						
	Share capital	Capital reserves	Other reserves	Retained earnings	Equity attributable to shareholders of Lenzing AG	Non-controlling interests	Equity
<b>As at 01/01/2018 (previously)</b>	<b>27.6</b>	<b>133.9</b>	<b>(1.6)</b>	<b>1,316.4</b>	<b>1,476.3</b>	<b>31.6</b>	<b>1,507.9</b>
First-time adoption of IFRS 9 (Financial Instruments) <sup>1)</sup>	0.0	0.0	4.0	0.0	3.9	0	3.9
<b>As at 01/01/2018 (adjusted)</b>	<b>27.6</b>	<b>133.9</b>	<b>2.4</b>	<b>1,316.4</b>	<b>1,480.3</b>	<b>31.6</b>	<b>1,511.8</b>
Total comprehensive income	0.0	0.0	3.8	134.3	138.1	0.6	138.8
Acquisition/disposal of non-controlling interests and other changes in the scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	(132.8)	(132.8)	(0.2)	(132.9)
<b>As at 30/09/2018</b>	<b>27.6</b>	<b>133.9</b>	<b>6.1</b>	<b>1,318.1</b>	<b>1,485.6</b>	<b>32.1</b>	<b>1,517.7</b>
<b>As at 01/01/2019</b>	<b>27.6</b>	<b>133.9</b>	<b>7.5</b>	<b>1,332.8</b>	<b>1,501.7</b>	<b>32.2</b>	<b>1,533.9</b>
Total comprehensive income	0.0	0.0	15.9	117.1	133.0	(2.8)	130.2
Acquisition/disposal of non-controlling interests and other changes in the scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	(132.8)	(132.8)	(0.1)	(132.9)
<b>As at 30/09/2019</b>	<b>27.6</b>	<b>133.9</b>	<b>23.3</b>	<b>1,317.2</b>	<b>1,502.0</b>	<b>29.2</b>	<b>1,531.2</b>

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.

# Consolidated Statement of Cash Flows (condensed)

for the period from January 1 to September 30, 2019

	EUR mn	
	01-09/2019	01-09/2018
<b>Net profit for the period</b>	<b>112.9</b>	<b>133.8</b>
+ Amortization of intangible assets and depreciation of property, plant and equipment	115.2	102.3
-/+ Other non-cash income / expenses	14.3	(12.7)
<b>Gross cash flow</b>	<b>242.5</b>	<b>223.4</b>
+/- Change in inventories	(34.7)	(29.6)
+/- Change in receivables	(31.2)	(10.5)
+/- Change in liabilities	(5.6)	64.0
<b>Change in working capital</b>	<b>(71.5)</b>	<b>23.9</b>
<b>Cash flow from operating activities</b>	<b>171.0</b>	<b>247.3</b>
- Acquisition of intangible assets, property, plant and equipment (CAPEX)	(159.7)	(174.1)
- Acquisition of financial assets and investments accounted for using the equity method	(7.5)	(1.5)
+ Proceeds from the sale of intangible assets, property, plant and equipment	0.1	1.2
+ Proceeds from the sale/repayment of financial assets and the sale of investments accounted for using the equity method	3.8	2.2
+ Net inflow from the sale and disposal of subsidiaries and other business areas	0.0	0.1
<b>Cash flow from investing activities</b>	<b>(163.4)</b>	<b>(172.1)</b>
- Distribution to shareholders	(132.9)	(132.9)
+ Investment grants	1.8	0.2
+ Increase in other financial liabilities	207.4	73.6
- Repayment of bonds and private placements	0.0	0.0
- Repayment of other financial liabilities	(85.5)	(59.0)
<b>Cash flow from financing activities</b>	<b>(9.3)</b>	<b>(118.1)</b>
<b>Total change in liquid funds</b>	<b>(1.7)</b>	<b>(43.0)</b>
Liquid funds at the beginning of the year	243.9	306.5
Currency translation adjustment relating to liquid funds	3.8	0.2
<b>Liquid funds at the end of the period</b>	<b>246.0</b>	<b>263.7</b>
<b>Additional information on payments in the cash flow from operating activities:</b>		
Interest payments received	1.3	1.3
Interest payments made	4.4	4.1
Income taxes paid	45.2	59.2

The condensed consolidated interim financial statements as at September 30, 2019 were prepared based on IAS 34 (Interim Financial Reporting). They are based on the consolidated financial statements as at December 31, 2018 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.

## Imprint

### Copyright and published by

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ElectricArts Werbeagentur GmbH

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Produced in-house using FIRE.sys

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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