

# Report of the Supervisory Board

## To the 77<sup>th</sup> Annual General Meeting

### Dear Shareholders,

The 2020 financial year was an extremely challenging year for Lenzing AG, its employees, customers and all stakeholders, which, considering the circumstances, showed a positive development despite the difficult environment. Starting with very low prices for standard viscose at the beginning of the year, demand on the global fiber markets rapidly deteriorated from the first quarter of 2020 onwards due to the impact of COVID-19. As a result, the prices for standard viscose fell to a historic low in August 2020, while sales volume declined at the same time in the textile segment.


Although the market climate was impacted by COVID-19, Lenzing AG continued to secure its earnings power and competitiveness in the 2020 financial year with a focused strategic orientation based on the sCore TEN strategy and the consistent implementation of extensive efficiency and cost optimization programs, while at the same time further advancing the implementation of the two major projects in Thailand and in Brazil. Furthermore, Lenzing AG secured a double “A” score as a first-time discloser from the global non-profit environmental organization CDP based on its long-term sustainability strategy, thus underlining its leadership in sustainability within the textile value chain.

In addition to supporting the Managing Board in the difficult market environment caused by COVID-19, the activities of the Supervisory Board focused on the continuous consulting and control regarding the disciplined implementation of the two major projects in Thailand and Brazil, which are both on budget and on schedule.

After the Managing Board was restructured in 2020 with the new members Stephan Sielaff (CTO) and Christian Skilich (responsible for “Wood & Pulp”), an organizational change was successfully implemented with the establishment of two independent business units for “Fibers” and “Wood & Pulp”. Both the restructuring of the Managing Board team and the new organization will ensure that Lenzing AG lives up to the future importance of the pulp for the further strategic development, enabling it to respond even more rapidly to market opportunities in the fiber business in the future.

The Supervisory Board fulfilled the monitoring obligations defined by law, the articles of association and rules of procedure in connection with these activities. It was involved in the fundamental decisions on a timely basis and provided professional advice for the Managing Board. The Managing 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 Managing 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. Against the backdrop of the effects of COVID-19, the majority of the meetings were held virtually via video conference in the 2020 financial year.

### **Supervisory Board meetings**

The Supervisory Board of Lenzing AG met eight times during the 2020 financial year, where the Managing Board reported on the development of business as well as major transactions and measures. The work of the Managing Board was also monitored, and the Supervisory Board offered its professional advice on major strategic issues. In addition, an in-depth meeting was held on the sustainability strategy. In view of the impact of

COVID-19, the exchange with the Managing Board was further intensified and steps to mitigate the COVID-19 risks for the business of Lenzing AG were continuously taken in close coordination with the Managing Board and evaluated on an ongoing basis. 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, the sustainability strategy and ESG topics, research and development focal points, digitalization, staff-related issues, financing measures as well as the discussion and approval of the budget for the 2021 financial year. With regard to financing measures, one of the Supervisory Board's main focus areas was to provide the Managing Board with support and advice in the course of issuing a EUR 500 mn hybrid bond in November 2020 to further strengthen and diversify the capital structure. In addition, the remuneration policy was adopted and decisions regarding current and planned investment projects to continuously improve competitiveness were made. The Supervisory Board also addressed the efficiency of its own working procedures.

The Annual General Meeting on June 18, 2020 elected Melody Harris-Jensbach to the Supervisory Board. Patrick Prügger and Franz Gasselsberger were re-elected to the Supervisory Board. Felix Fremerey resigned from the Supervisory Board on June 18, 2020. We would like to thank Felix Fremerey for his commitment and his constructive work.



# Report of the Supervisory Board

## Committee meetings

The Remuneration Committee established by the Supervisory Board met three times during the reporting year and dealt primarily with the evaluation of performance and definition of goals for the Managing Board members as well as general remuneration topics related to the Managing Board. Moreover, the Remuneration Committee worked on developing the remuneration policy of Lenzing AG.

The Nomination Committee met twice in 2020. The meetings focused, in particular, on personnel development measures and succession planning issues. It discussed election proposals to the Supervisory Board and presented the corresponding proposals for resolution.

The Strategy Committee met twice in 2020. Discussions with the Managing 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. In addition, updates on individual product strategies, the quality strategy as well as continuous programs to increase efficiency and reduce costs were discussed with the Managing Board at these meetings. The results were subsequently discussed with the full Supervisory Board.

The Audit Committee met three times in 2020. Representatives of the auditor also participated in the meetings in order to report on their auditing activities. Specific accounting topics were also discussed in the presence of the auditor. In addition to reviewing and preparing the separate and consolidated financial statements, the committee also addressed the additional tasks in accordance with Section 92 Para. 4a of the Austrian Stock Corporation Act and focused, in particular, on critically examining and monitoring the functioning and effectiveness of the internal control, audit and risk management systems. The results were subsequently discussed with the full Supervisory Board.

The Committee for Large CAPEX Projects established by the Supervisory Board met five times in 2020 and dealt with the ongoing support, consulting and control of the two large projects for construction of a lyocell fiber plant in Thailand and the construction of a dissolving wood pulp plant in Brazil.

The Strategy Committee for Financing Matters met three times in 2020 and dealt with decisions regarding


key financing topics with respect to the simultaneous implementation of the major strategic projects initiated. The committee meetings focused in particular on supporting and advising the Managing Board in concluding the financing package of approximately USD 1.15 bn in connection with the construction of the dissolving wood pulp plant in Brazil in June 2020.

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

## 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, 2020 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 Managing 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 2021 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 2020 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 Managing 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 77<sup>th</sup> Annual General Meeting for the appointment of KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as the auditor of the annual financial statements for the 2021 financial year.

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

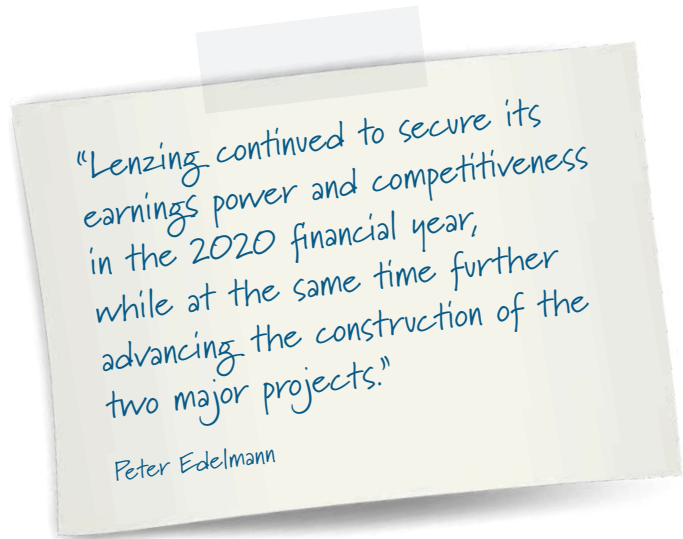
## Thanks and acknowledgement

The Supervisory Board extends its thanks and acknowledgement to the Managing Board and all employees of Lenzing AG for their outstanding commitment. Thanks to everyone's personal dedication, Lenzing AG was able to overcome the particular challenges caused by COVID-19 and to continue implementing the sCore TEN strategy with undiminished strength. Special thanks also go out to the customers, shareholders, suppliers and business partners of Lenzing for their trust.

**Vienna, March 08, 2021**

**Peter Edlmann**

Chairman of the Supervisory Board



"Lenzing continued to secure its earnings power and competitiveness in the 2020 financial year, while at the same time further advancing the construction of the two major projects."

Peter Edlmann