Half-Year Report 01-06/2018
Lenzing Group

H1 2018

Lenzing

Innovative by nature

80 Years Lenzing

Selected Indicators of the Lenzing Group

Key earnings and profitability figures

EUR mn	01-06/2018	01-06/2017	Change
Revenue	1,075.4	1,149.1	(6.4)%
EBITDA (earnings before interest, tax, depreciation and amortization)	194.8	270.7	(28.1)%
EBITDA margin	18.1%	23.6%	
EBIT (earnings before interest and tax)	128.7	204.2	(37.0)%
EBIT margin	12.0%	17.8%	
EBT (earnings before tax)	120.9	194.7	(37.9)%
Net profit for the year (/the period)	91.3	150.3	(39.3)%
Earnings per share in EUR	3.44	5.55	(38.0)%

Key cash flow figures

EUR mn	01-06/2018	01-06/2017	Change
Gross cash flow	150.7	227.1	(33.6)%
Cash flow from operating activities	157.7	201.3	(21.6)%
Free cash flow	41.4	128.5	(67.8)%
CAPEX	117.2	72.9	60.8%
EUR mn	**30/06/2018**	**31/12/2017**	**Change**
Liquid assets	263.8	315.8	(16.5)%
Unused credit facilities	406.8	213.8	90.3%

Key balance sheet figures

EUR mn	30/06/2018	31/12/2017	Change
Total assets	2,524.2	2,497.3	1.1%
Adjusted equity	1,490.5	1,527.7	(2.4)%
Adjusted equity ratio	59.0%	61.2%	
Net financial debt	144.2	66.8	116.0%
Net debt	248.8	172.2	44.5%
Net gearing	9.7%	4.4%	
Trading working capital	420.5	414.4	1.5%
Trading working capital to annualized group revenue	20.0%	19.4%	

Key stock market figures

EUR	30/06/2018	31/12/2017	Change
Market capitalization in mn	2,745.3	2,810.3	(2.3)%
Share price	103.40	105.85	(2.3)%

Employees	30/06/2018	31/12/2017	Change
Number (headcount)	6,640	6,488	2.3%

The above financial indicators are derived primarily from the Lenzing Group's condensed consolidated interim financial statements and the 2017 consolidated financial statements. Additional details are provided in the section "Notes on the Financial Performance Indicators of the Lenzing Group", in the glossary to the half-year report and in the condensed consolidated interim financial statements, resp. the 2017 consolidated financial statements of the Lenzing Group. Rounding differences can occur in the presentation of rounded amounts and percentage rates.

Introduction by the Chief Executive Officer

Ladies and Gentlemen,

After achieving record results in the past years, Lenzing recorded declines in revenue and earnings at the start of the 2018 financial year, which is challenging as expected. Headwinds from the market were clearly noticeable in the first half of the year. Given this background, we are satisfied with the solid figures. Revenue amounted to EUR 1.08 bn and was 6.4 percent lower than in the previous year; EBITDA declined by 28.1 percent to EUR 194.8 mn.

The sCore TEN corporate strategy has anticipated exactly that market environment and the Lenzing Group has therefore placed its focus on expanding the share of specialty fibers and the share of its own pulp supply. In addition to the previously published expansions in the specialty fiber segment, we announced a major decision regarding of pulp self-sufficiency in the second quarter.

The planned joint venture with Duratex, the largest manufacturer of industrialized wood panels in the southern hemisphere, enables us to secure the expansion of production capacity for specialty fibers through our own pulp production. This joint venture in the state of Minas Gerais (Brazil) is expected to have a capacity of 450,000 tons of dissolving wood pulp per year. For this plant, which – based on current information – will be the largest and most competitive of its kind worldwide, we have secured a plantation certified in accordance with the principles and criteria of the Forest Stewardship Council® (FSC®). This plantation is fully in line with our strict wood and pulp sourcing policy. Work on the basic engineering and the application for required permits is currently underway. A final decision regarding the project will be made in the second half of 2019.

Responsible raw material sourcing, transparency and sustainable management are increasingly becoming the key topics of our time and fundamental challenges for the textile and nonwoven industry. As one of the leading manufacturers of cellulosic fibers made of wood and a pioneer in sustainable fiber solutions, we are highly committed to addressing these issues and to making a positive contribution to the environment and society. In the first half of the year we set another two milestones to reach our ambitious goals:

- We announced an investment of up to EUR 30 mn in an additional pilot line for the production of TENCEL™ Luxe filaments at the Lenzing site. This will enable us to better satisfy the demand of many luxury brands for the fine filament, whose production is particularly environmentally friendly.
- We are expanding the production of LENZING™ ECOVERO™ branded viscose fibers and have also introduced the environmentally friendly process at our Chinese site in Nanjing.

Strong brands are a key prerequisite for the business success of any company. That is why we have given a new face to our brands, along with a clear positioning, in the first half of the year, thus turning over a new leaf in branding and brand communication. We no longer want to be considered merely a technical B2B brand. Rather, we would also like to be perceived as a very human and personal B2B2C brand by consumers, triggering higher demand for our products this way. With the new appearance of our corporate brand and our product brands, we now communicate our strengths clearly and support consumers in their buying decision.

Thanks to the disciplined implementation of our sCore TEN strategy, we are convinced that we are still on the right track. However, this would certainly not be possible without committed and qualified personnel. Therefore I would like to extend my special thanks to our employees. On behalf of the Lenzing team, I would also like to thank all shareholders, customers and partners for their trust.

Yours **Stefan Doboczky**

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General Market Environment

Global economy

The global economic upswing, which started in mid-2016, was still ongoing in the first half of 2018. The International Monetary Fund (IMF) expects growth of 3.9 percent for both this year and next year, compared with 3.7 percent in 2017. However, in contrast to the World Economic Outlook Update of April, the IMF warned of increasing risks for the global economy and decelerating growth in some industrialized countries such as Japan, the United Kingdom and the Euro area. In particular, the IMF views the growing protectionism in world trade and various geopolitical tensions negatively. The negotiations on the United Kingdom's withdrawal from the European Union continue to be a source of uncertainty.

Global fiber market

The global fiber market saw varied developments in the first half of 2018. According to the Cotlook-A-Index, the average price for cotton amounted to USD 89.4 cents per pound at the beginning of the year, marked a high of USD 101.7 cents in mid-June and fell to USD 94.7 cents by the end of the month. The price increase was primarily caused by strong demand and increased trading in forward contracts in anticipation of crop failures. According to the current forecast, cotton production will increase by 15 percent to 26.6 mn tons in the 2017/18 season. After several stable seasons, global consumption will rise by 7 percent to 26.2 mn tons.

Polyester prices increased at the beginning of the first quarter of 2018 due to high oil and raw material prices. At the end of May, falling oil prices and weakening demand pushed the price below the level of the beginning of the year. However, compared with the first half of 2017, polyester prices still increased by an average of 23 percent.

The prices for standard viscose recorded a highly volatile development in the first half of the year. From early January to the end of June 2018, market prices in China were up 3.2 percent from 14,400 CNY/ton to 14,860 CNY/ton. In the first quarter viscose prices continued to develop well. However, after the Chinese New Year prices did not increase as usual. Rather, the viscose price dropped down to 13,850 CNY/to at the end of April. This was essentially caused by uncertainty resulting from the announcement of new capacities in the current year. Low capacity utilization in China as a result of the implementation of environmental regulations and the earnings situation of some Chinese competitors subsequently led to a decrease in inventory levels and a turnaround in the price development.

The prices for wood-based specialty cellulosic fibers such as lyocell and modal fibers continued their positive development as demand remained strong.

The Development of Business in the Lenzing Group

The Lenzing Group recorded a decline in revenue and earnings in the first half of 2018 compared with the first half of the previous year, which was the best half-year in the company's history. Apart from the high starting base, this was primarily attributable to the expected challenging market environment for standard viscose and weaker currencies (especially USD). The disciplined implementation of the sCore TEN strategy with its focus on specialty fibers and greater customer intimacy showed a positive effect. The Lenzing Group thus managed to slightly curb the decline in average fiber prices resulting from unfavorable exchange rates and to maintain demand for LENZING™ fibers at a high level.

Against this backdrop, revenue declined by 6.4 percent over the comparative period of the previous year to EUR 1.08 bn. EBITDA (earnings before interest, tax, depreciation and amortization) decreased by 28.1 percent to EUR 194.8 mn and the EBITDA margin fell from 23.6 percent to 18.1 percent. Details on the development of revenue and earnings in the first half of 2018 are presented below:

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

			Change	
	01-06/2018	**01-06/2017**	**Absolute**	**Relative**
Revenue	**1,075.4**	**1,149.1**	**(73.7)**	**(6.4%)**
Change in inventories, own work capitalized and other operating income	60.4	45.5	14.9	32.7%
Cost of material and other purchased services	(626.1)	(618.4)	(7.7)	1.2%
Personnel expenses	(186.0)	(173.8)	(12.2)	7.0%
Other operating expenses	(128.9)	(131.7)	2.8	(2.1%)
EBITDA	**194.8**	**270.7**	**(76.0)**	**(28.1%)**
Amortization and depreciation	(67.4)	(67.9)	0.5	(0.7%)
Income from the release of investment grants	1.4	1.3	0.0	2.1%
EBIT	**128.7**	**204.2**	**(75.5)**	**(37.0%)**
Financial result	(8.0)	(6.2)	(1.8)	n/a
Allocation of profit or loss to puttable non-controlling interests	0.2	(3.3)	3.5	(104.9%)
EBT	**120.9**	**194.7**	**(73.8)**	**(37.9%)**
Income tax expense	(29.6)	(44.3)	14.7	(33.3%)
Net profit for the period	**91.3**	**150.3**	**(59.0)**	**(39.3%)**

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

Significant headwind continues in the second quarter

As in the first quarter, significant headwind from the market was also noticeable in the second quarter of 2018: revenue declined by 6.7 percent over the second quarter of the previous year to EUR 525 mn. EBITDA fell by 31.3 percent to EUR 93.2 mn. EBIT (earnings before interest and tax) was down 41.2 percent to EUR 59.8 mn. EBT (earnings before tax) recorded a drop of 42.5 percent to EUR 56 mn and net profit decreased by 45.2 percent to EUR 41.2 mn.

First half-year developed as expected

The first half of 2018 was characterized by a challenging market environment as expected. Nevertheless, the demand for LENZING™ fibers remained constant at a high level, which led to high capacity utilization. Revenue declined by 6.4 percent to EUR 1.08 bn, mainly due to unfavorable currency relations. The decline was mitigated due to the focus on LENZING™ specialty fibers and further optimization of the product mix regarding customers and sales regions.

The increase in cost of material and other purchased services is primarily attributable to price increases for caustic soda and higher energy prices. In relation to revenue, costs of material and other purchased services rose to 58.2 percent (H1 2017: 53.8 percent).

Personnel expenses rose by 7 percent from EUR 173.8 mn in the prior-year period to EUR 186 mn in the first half of 2018. This increase was primarily due to the hiring of new employees for the expansion of production capacities and intensified marketing and sales activities and to the wage and salary increases based on collective agreements in Austria as well as salary increases at other locations. The share of personnel expenses in revenue rose from 15.1 percent to 17.3 percent.

Other operating expenses decreased by 2.1 percent to EUR 128.9 mn in the first half of 2018.

The financial result was slightly negative at EUR minus 8 mn in the first half of 2018 (H1 2017: EUR minus 6.2 mn). Income tax expense, at EUR 29.6 mn (H1 2017: EUR 44.3 mn) developed nearly proportionally to earnings before tax, which were 37.9 percent lower than in the first half of the previous year. Net profit for the period decreased by 39.3 percent to EUR 91.3 mn. Earnings per share consequently fell from EUR 5.55 to EUR 3.44.

Slight increase in working capital

Trading working capital increased by 1.5 percent to EUR 420.5 mn in the first half of 2018. The ratio of trading working capital to annualized Group revenue rose from 19.4 percent as at December 31, 2017 to 20 percent as at June 30, 2018.

Cash flow used for investments

Gross cash flow in the first half of 2018 fell by 33.6 percent compared to the first half of the previous year and amounted to EUR 150.7 mn. This decrease was above all due to the decline in earnings resulting from unfavorable exchange rates and the increasing costs of key raw materials. Cash flow from operating activities declined by 21.6 percent to EUR 157.7 mn during the same period. Cash flow from financing activities increased from EUR minus 171.2 mn in the prior-year period to EUR minus 108.4 million as existing credit lines were used. In the second quarter of 2018 a dividend totaling EUR 132.8 mn was paid to shareholders.

CAPEX (investments in intangible assets and property, plant and equipment) rose by 60.8 percent year-on-year to EUR 117.2 mn in the first half of 2018. This is primarily attributable to the capacity expansions in Heiligenkreuz (Austria) and Mobile (USA) and the expansion of the existing dissolving wood pulp plant in Lenzing. Together with the decline in gross cash flow this caused free cash flow to decrease by 67.8 percent to EUR 41.4 mn. Liquid assets also declined to EUR 263.8 mn as at June 30, 2018 (EUR 315.8 mn as at December 31, 2017). Together with unused credit lines of EUR 406.8 mn the Lenzing Group thus had a liquidity buffer of EUR 670.6 mn at its disposal as at June 30, 2018. This high liquidity provides the solid financial basis for the Lenzing Group's investment program in the coming quarters within the framework of the sCore TEN strategy.

Solid balance sheet structure

The slight decline in adjusted equity by 2.4 percent from EUR 1,527.7 mn as at December 31, 2017 to EUR 1,490.5 mn as at June 30, 2018 led to a minor reduction of the adjusted equity ratio, which decreased from 61.2 percent to 59 percent in the reporting period. Although net financial debt, at EUR 144.2 mn as at June 30, 2018, exceeded the figure as at December 31, 2017 of EUR 66.8 mn, it is still at a solid level.

Segment Fibers

Wood

In the first half of 2018 supply and demand in the Central European wood market were strongly influenced by a wet and very snowy winter, particularly in the Alps. In large parts of Germany, Austria and Hungary the ground was so muddy that forest work had to be stopped repeatedly and beech wood was only available to a limited extent. This was contrasted by enormous amounts of woody debris (spruce, pine, ash) following winter storms throughout Europe. In addition, a relatively hot and dry April facilitated an increase in beetle infestation, causing additional spruce wood to be offered on the market.

The oversupply of spruce led to very good supply of the pulp plant in Paskov (Czech Republic) and falling prices. In contrast, the Lenzing site was faced with a difficult supply situation for pulp production due to the limited availability of beech wood and logistical problems arising from the intensive processing of woody debris. Nevertheless, price increases for beech were limited.

Energy & Chemicals

The Lenzing Group's procurement strategy for the key cost components, electricity and natural gas, is based on spot market prices. The European energy markets were characterized by two significant developments in the first half of 2018.

The increase in oil prices continued. Spot market prices rose by nearly 30 percent to more than 70 USD/bbl. This increment also impacted the natural gas market; prices were up roughly 20 percent.

In addition to oil and gas prices, electricity prices also recorded increases, some of which were significant. While prices on the spot market of the European Energy Exchange (EEX) in Leipzig rose moderately to roughly 37 EUR/MWh, prices for the delivery in 2019 were on average roughly 35 percent higher than in the previous year. This was caused, among other things, by a massive price increase for CO_2 allowances, which tripled in comparison with the previous year. The rise in coal prices towards the end of the previous year has so far not continued in 2018; the increase over the comparative period of the previous year is still nearly 15 percent.

The generally good economic situation led to increasing chemical prices in the first half of 2018, in particular the price of caustic soda rose substantially. This is attributable to very strong global demand, with supply decreasing at the same time. Reduced production capacities in Europe as a result of the EU ban of the mercury-based chloralkali process (amalgam process) at the end of 2017 aggravated this situation.

Biorefinery

Pulp

The Lenzing Group covers more than half of its pulp requirements with the two production sites in Lenzing and Paskov. The global pulp market is currently recording excess demand, which causes prices to increase. As a consequence, the import price for dissolving wood pulp to China continued to rise during the first half of the year, contrary to the viscose spot market prices, and amounted to an average of USD 932 per ton, compared with USD 904 in the first half of 2017, which corresponds to an increase by 3 percent.

In June the Lenzing Group announced an agreement with Duratex, the largest producer of wood panels in the southern hemisphere, on the terms and conditions to form a joint venture to investigate building the largest line dissolving wood pulp line (single line concept) in Minas Gerais (Brazil). This decision supports backward integration and is a significant step in implementing the sCore TEN strategy.

Bio-based materials

The results of the bio-based materials produced in the Lenzing Group's biorefinery continued to improve in the first half of the year. LENZING™ Magnesium-Lignosulphonate Biobased recorded a stable development in terms of both volume and value. LENZING™ Furfural Biobased achieved substantially higher selling prices due to the reduced global market supply. The trend of constantly rising prices also continued for LENZING™ Acetic Acid Biobased since global demand is currently higher than supply. Positive earnings were also recorded for xylose.

After Lenzing had received the Biobased Product Label from the United States Department of Agriculture (USDA) in the previous year, the GHG Protocol (Greenhouse Gas Protocol) was published in March of this year. This standard report for the accounting of greenhouse gas emissions certifies that the carbon footprint of LENZING™ Acetic Acid Biobased is seven times better than that of conventionally produced acetic acid.

Fibers

Key strategic measures were implemented during the first half of 2018 in line with the sCore TEN strategy. The Lenzing Group puts the focus on stable and profitable growth by expanding the production of specialty fibers. The start-up of new capacities for lyocell fibers in Heiligenkreuz, the production start of LENZING™ ECOVERO™ fibers at the Nanjing site and the investment in another pilot line for TENCEL™ Luxe filaments are important steps to accomplish this goal.

Textile fibers

Lenzing recorded strong global demand for all three generations of wood-based cellulosic fibers in the first half of 2018. The targeted marketing and business development activities contributed to further strengthening interest in sustainably produced fibers along the entire value chain. This benefitted in particular the specialty fibers LENZING™ Lyocell and LENZING™ Modal.

In the first half of 2018 the new TENCEL™ brand was introduced as the umbrella brand for all specialty fibers in the textile segment with the brand promise "Feels so right". The response of the textile industry to new positioning was positive, from knitting and weaving mills to fashion labels. In general, demand for specialty fibers recorded a strong development among consumers in the most important textile subsegments. Lenzing structures its marketing activities along the subsegments denim (jeans), innerwear (underwear, nightwear, T-shirts and tops), activewear & outerwear (sportswear, shirts, dresses, etc.) and home & interiors (bed linen and towels). LENZING™ Lyocell fibers are increasingly also perceived as versatile fibers which improve the end product's functionality when added to wool, silk or cashmere. In particular, the high sales volume of LENZING™ Lyocell LF fibers must be emphasized. This type of fiber is produced based on the eco-friendly, closed lyocell process. There is a wide range of possible applications; LENZING™ Lyocell LF fibers attract growing interest especially in the home & interiors subsegment. Market demand for LENZING™ Modal fibers is still stronger than for comparable products of competitors. The subsegments innerwear and activewear have become established as important applications of modal fibers.

The three most important product innovations of the previous year, LENZING™ ECOVERO™ branded fibers, lyocell fibers with REFIBRA™ technology and TENCEL™ Luxe branded filament yarns, also saw a strong market upturn in 2018.

The LENZING™ ECOVERO™ brand addresses the growing demand of customers and partners along the value chain for products from ecologically sustainable fiber production. LENZING™ ECOVERO™ fibers are equipped with a special manufacturing system which provides for more transparency in the fashion industry and ensures identifiability throughout the entire production chain. In the first half of 2018 Lenzing successfully realized the conversion of the Nanjing plant to LENZING™ ECOVERO™ fibers. As a result, the company will be able to better satisfy the demand of its customers in Asia.

TENCEL™ Lyocell fibers with REFIBRA™ technology, which were launched on the market in 2017, were in high demand again in the first half of 2018 and will be found in numerous collections of leading international brands in the further course of the year. The REFIBRA™ technology is used to produce TENCEL™ Lyocell fibers which are based on scraps left over from the production of cotton clothing. With this technology, the Lenzing Group drives new solutions to introduce a circular economy in the fashion industry and underscores its position as a sustainable producer.

TENCEL™ Luxe filaments can be found in the first collections of luxury fashion brands. These brands were impressed and customers consider the filament yarns a promising mixing partner for the creation of high-quality fabrics with silk, cashmere and other materials. Based on this strong dynamics, Lenzing announced investments of up to EUR 30 mn in another pilot line at the Lenzing site.

Nonwoven fibers

The sound market development of the nonwovens segment continued in the first half of 2018. The Lenzing Group's customers invested massively in new capacity in all regions. Turkey and China are worth particular mention in this context, but capacity for the production of nonwoven fibers was also increased in Western Europe and the USA. Lenzing grew with its customers and launched the new VEOCEL™ brand as an umbrella brand for all specialty fibers in this segment.

A particular focus is placed on the subsegments beauty, body, intimate and surface. In line with the sCore TEN strategy, special applications such as VEOCEL™ Lyocell Skin fibers for facial masks and VEOCEL™ Lyocell Shortcut fibers for moist toilet tissues were further promoted, resulting in significant growth rates. The trend towards sheet masks in the cosmetics sector has now also reached the markets in the USA and Europe.

In the subsegment surface VEOCEL™ Lyocell Release fibers were presented as a new product used in household and home-care wipes, thus enabling more effective surface cleaning and disinfection.

Fibers for industrial applications

The different industrial applications such as LENZING™ for Packaging and LENZING™ for Agriculture were met with great interest on the market in the first half of the year, supported, among other things, by the increasing importance of avoiding plastics, which is massively driven by the European Commission and its proposal of an EU directive to avoid single-use plastics.

The LENZING™ for Agriculture brand comprises agricultural applications such as farming ropes and strings for greenhouses and mulch fleece, which is currently still in the development phase. The topic of microplastics is analyzed in detail in cooperation with various different institutes.

The LENZING™ for Packaging brand includes applications such tea bags or nets for fruit and vegetables. Value chains have been successfully established with renowned international retail companies in this segment.

In addition to sustainability, LENZING™ Lyocell fibers also stand for high comfort. Through its cooperation with the footwear producer Allbirds, the Lenzing Group again underscored its success through close partnerships in the development of solutions in the LENZING™ for Footwear segment.

In line with the sCore TEN strategy, special applications like LENZING™ Lyocell shortcut fibers for filter or battery separators were also promoted under the LENZING™ for Engineered Products brand.

Segment Lenzing Technik

Lenzing Technik recorded a year-on-year increase in revenue and maintained earnings. The development in the filtration and separation technology business continued to be positive, but no major projects were carried out. In the area of pulp technology internal and external projects were implemented successfully. Mechanical construction, which operates as a production area within the Lenzing Group, primarily participated in the Group's expansion activities in Austria and in the USA. Due to the final account of the project in Heiligenkreuz a sharp increase in revenue was recorded in comparison with the previous year.

Revenue in the segment Lenzing Technik rose by 15.7 percent to EUR 24.6 mn in the first half of 2018. EBITDA was stable at EUR 2 mn (H1 2017: EUR 2 mn). EBIT amounted to EUR 1.6 mn and was slightly lower than in the previous year (H1 2017: EUR 1.7 mn).

Segment Other

Revenue in the segment Other increased to EUR 2.5 mn in the first half of 2018, while EBITDA declined to EUR 0.4 mn and EBIT also decreased to EUR 0.4 mn.

The Lenzing Share

The Lenzing share slightly outperformed the ATX in the first half of the year, but recorded a minor value loss in absolute terms. Starting the year at EUR 106.8 on January 2, 2018, the share reached a closing price high of EUR 109.8 on January 16, 2018. The annual low of EUR 91.3 was recorded on May 9, 2018. The downwards trend was only stopped at the end of the reporting period after Lenzing AG announced its strategy for the expansion of backward integration for pulp. At the end of the first half-year, the share closed at EUR 103.4 on June 29, 2018, a development of minus 2.3 percent compared with the end of the year 2017. The ATX fell by 4.8 percent during the same period.

The share of Lenzing AG is currently covered by seven analysts, whose estimates point to buy and hold. The 74th Annual General Meeting of Lenzing AG on April 12, 2018 approved a dividend of EUR 3.00 per share for the financial year 2017 and the payment of a special dividend of EUR 2.00. This represents a dividend distribution of EUR 132.8 million and a dividend yield of 2.8 percent, or 4.7 percent including the special dividend (basis: 2017 closing price). The portion of the 26.55 mn shares that is not freely tradable amounts to 50 percent plus 2 shares and is attributable to B&C Privatstiftung through its wholly-owned subsidiary B&C Österreich GmbH and its wholly-owned subsidiary B&C LAG Holding GmbH in accordance with Section 92 (4) of the Austrian Stock Exchange Act.

Risk Report

The risk report for the first half of the year is based on estimates of the top management of the Lenzing Group and covers the main business risks for 2018. All risks are assessed with respect to their probability of occurrence and their impact, and simulated in a stochastic analysis model with 100,000 cycles. The objective of risk aggregation is to evaluate the overall risk position and to determine the possible influence on EBITDA.

Current risk environment

Overall, the risk environment has become slightly more severe. The tariff increases recently announced by the United States and retaliatory measures on the part of trading partners have made a trade conflict more likely. This could adversely affect economic recovery and have a negative impact on medium-term growth prospects, both through direct effects on resource allocation and productivity and through growing uncertainty.

Tensions in the euro area as well as higher oil prices and capital outflows from the emerging countries reinforce this negative outlook. In its report on the summer interim economic forecast, the EU Commission issued the following statement: "While the nature of the current 'soft patch' is not yet fully clear and developments in global trade policy have emerged as a major downside risk to the near and medium term outlook, the fundamentals for sustained growth in Europe remain in place."

The financial markets in the USA and Europe remained largely on track while the currencies of several emerging countries such as Argentina, Brazil and Turkey were forced to devaluate. A continued risk of devaluation remains.

Lenzing risk outlook 2018

The short-term outlook for botanic cellulose fibers continues to be cautiously neutral. The price risk for specialty fibers of the Lenzing Group is still considered to be low. However, pressure on standard viscose fibers is still high, especially due to new production volumes of competitors in China and Indonesia. The outlook regarding the price development of botanic cellulose fibers for the second half of 2018 is cautious. Comparatively high cotton prices support the prices of specialty fibers.

Dissolving wood pulp prices fluctuated continuously between USD 800 and 950/ton in the past 1.5 years, being at the upper end of this price range during the first half of 2018. Due to their significant influence on the Group's results, fiber and pulp prices are among the top risks and are monitored continuously. Lenzing counters these risks by consistently implementing the sCore TEN strategy and will, among other measures, expand its production capacities for pulp and lyocell fibers in the coming years. The most recent expansion of lyocell capacities in Heiligenkreuz has been completed successfully.

Volatile raw material prices, especially for chemicals such as caustic soda, may also have a great influence on EBITDA. The security of raw material supply is monitored closely.

The US dollar, which strengthened against the euro towards the end of the first half of 2018, currently has a positive impact on the unhedged volume of the Group.

In the past years there have only been minor damage incidents and claims within the Lenzing Group and risk avoidance continues to be improved continuously. Nevertheless, operational risks as well as environmental damage and product liability continue to be among the main causes of damage in the Lenzing Group and are therefore classified as high risk factors.

Natural hazards are a strongly increasing risk on a global scale. In order to cover losses of production downtimes comprehensively, the Group-wide insurance program is continuously developed further and mitigation measures are taken.

Lenzing is currently realizing numerous capacity expansion projects, among others the engineering respectively construction of new lyocell plants in Mobile and Thailand and furthermore the planning for a new pulp plant in Brazil. These types of major projects carry an inherent risk of cost overruns or delays.

Outlook for the Lenzing Group

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

Developments on the fiber markets should remain positive, but with continuing volatility. The rising demand for cotton should support prices despite the increase in production. Polyester fiber prices have stabilized after the increase in previous years.

The wood-based cellulosic 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 will enter the market in 2018 and 2019. As a result, standard viscose prices will remain under pressure. 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 still sees challenging market conditions for the second half of 2018. In addition to the price pressure on standard viscose, the prices of some key raw materials such as caustic soda are still at a very high level and exchange rates continue to be volatile. Our specialty fibers are expected to continue their very positive development. In this context, the Lenzing Group is satisfied with the earnings development to date, but underlines its estimate that the results for the year 2018 will be lower than the outstanding results in the last two years.

Related Party Disclosures

See Note 7 to the Consolidated Financial Statements.

Lenzing, August 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

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 condensed consolidated interim financial statements and the consolidated financial statements of the previous year of the Lenzing Group.

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).

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		01-06/2018	01-06/2017
Earnings before interest, tax, depreciation and amortization (EBITDA)		194.8	270.7
/	Revenue	1,075.4	1,149.1
EBITDA margin		**18.1%**	**23.6%**

EUR mn		01-06/2018	01-06/2017
Earnings before interest and tax (EBIT)		128.7	204.2
/	Revenue	1,075.4	1,149.1
EBIT margin		**12.0%**	**17.8%**

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.

EUR mn		01-06/2018	01-06/2017
Net profit for the period		**91.3**	**150.3**
+	**Amortization of intangible assets and depreciation of property, plant and equipment**	**67.4**	**67.9**
–	Income from the release of investment grants	(1.4)	(1.3)
+/–	Change in non-current provisions	(1.3)	1.4
–/+	Income / expenses from deferred taxes	0.8	2.9
+/–	Change in current tax assets and liabilities	(9.6)	3.9
+/–	Non-cash profit/loss from investments accounted for using the equity method	0.2	(0.4)
–/+	Other non-cash income / expenses	3.1	2.4
–/+	**Other non-cash income / expenses**	**(8.0)**	**8.9**
Gross cash flow		**150.7**	**227.1**

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		01-06/2018	01-06/2017
Cash flow from operating activities		157.7	201.3
–	Cash flow from investing activities	(115.5)	(69.6)
–	Net inflow from the sale and disposal of subsidiaries and other business areas	(0.1)	(3.1)
+	Acquisition of financial assets and investments accounted for using the equity method	1.3	1.0
–	Proceeds from the sale/repayment of financial assets and the sale of investments accounted for using the equity method	(2.0)	(1.0)
Free cash flow		**41.4**	**128.5**

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	30/06/2018	31/12/2017
Cash and cash equivalents	241.4	306.5
+ Liquid bills of exchange (in trade receivables)	22.4	9.4
Liquid assets	**263.8**	**315.8**

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	30/06/2018	31/12/2017
Inventories	347.4	340.1
+ Trade receivables	310.2	292.8
- Trade payables	(237.1)	(218.4)
Trading working capital	**420.5**	**414.4**

EUR mn	2018	2017
Latest reported quarterly group revenue	525.0	532.8
x 4 (= annualized group revenue)	2,100.1	2,131.1
Trading working capital to annualized group revenue	**20.0%**	**19.4%**

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	30/06/2018	31/12/2017
Equity	1,469.6	1,507.9
+ Non-current government grants	19.2	18.3
+ Current government grants	8.5	7.9
- Proportional share of deferred taxes on government grants	(6.8)	(6.4)
Adjusted equity	**1,490.5**	**1,527.7**
/ Total assets	2,524.2	2,497.3
Adjusted equity ratio	**59.0%**	**61.2%**

Net financial debt, 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 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	30/06/2018	31/12/2017
Current financial liabilities	110.0	127.3
+ Non-current financial liabilities	298.0	255.3
- Liquid assets	(263.8)	(315.8)
Net financial debt	**144.2**	**66.8**

EUR mn	30/06/2018	31/12/2017
Net financial debt	144.2	66.8
/ Adjusted equity	1,490.5	1,527.7
Net gearing	**9.7%**	**4.4%**

EUR mn	30/06/2018	31/12/2017
Net financial debt	144.2	66.8
+ Provisions for severance payments and pensions[1]	104.5	105.4
Net debt	**248.8**	**172.2**

1) This amount is included in the consolidated statement of financial position in "provisions" (non-current liabilities, resp. current liabilities).

Condensed Consolidated Interim Financial Statements

for the period from January 1, 2018
to June 30, 2018

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Consolidated Income Statement

for the period from January 1 to June 30, 2018

EUR mn

	Note	04-06/2018	04-06/2017	01-06/2018	01-06/2017
Revenue	(3)	525.0	562.9	1,075.4	1,149.1
Change in inventories of finished goods and work in progress		17.8	20.4	2.8	(1.0)
Own work capitalized		13.0	10.5	28.2	19.8
Other operating income		16.7	14.1	29.5	26.8
Cost of material and other purchased services		(317.6)	(319.2)	(626.1)	(618.4)
Personnel expenses		(95.0)	(88.3)	(186.0)	(173.8)
Other operating expenses		(66.8)	(64.8)	(128.9)	(131.7)
Earnings before interest, tax, depreciation and amortization (EBITDA)[1]		**93.2**	**135.6**	**194.8**	**270.7**
Amortization of intangible assets and depreciation of property, plant and equipment		(34.0)	(34.5)	(67.4)	(67.9)
Income from the release of investment grants		0.7	0.7	1.4	1.3
Earnings before interest and tax (EBIT)[1]		**59.8**	**101.8**	**128.7**	**204.2**
Income from investments accounted for using the equity method		0.0	0.5	(0.2)	0.6
Income from non-current and current financial assets		(0.3)	(0.1)	(0.5)	0.3
Financing costs		(3.9)	(3.1)	(7.3)	(7.1)
Financial result		**(4.2)**	**(2.7)**	**(8.0)**	**(6.2)**
Allocation of profit or loss to puttable non-controlling interests		0.4	(1.7)	0.2	(3.3)
Earnings before tax (EBT)[1]		**56.0**	**97.3**	**120.9**	**194.7**
Income tax expense		(14.8)	(22.0)	(29.6)	(44.3)
Net profit for the period		**41.2**	**75.3**	**91.3**	**150.3**
Net profit for the period attributable to shareholders of Lenzing AG		41.2	74.4	91.4	147.3
Net profit for the period attributable to non-controlling interests		0.0	0.9	(0.1)	3.0
Earnings per share		**EUR**	**EUR**	**EUR**	**EUR**
Diluted = basic		1.55	2.80	3.44	5.55

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

for the period from January 1 to June 30, 2018

EUR mn	04-06/2018	04-06/2017	01-06/2018	01-06/2017
Net profit for the period as per consolidated income statement	**41.2**	**75.3**	**91.3**	**150.3**
Items that will not be reclassified subsequently to profit or loss				
Financial assets measured at fair value through other comprehensive income (equity instruments) – net fair value gain/loss on remeasurement recognized during the year	0.3	0.0	0.8	0.0
Income tax relating to these components of other comprehensive income	(0.1)	0.0	(0.2)	0.0
	0.2	**0.0**	**0.6**	**0.0**
Items that may be reclassified to profit or loss				
Foreign operations – foreign currency translation differences arising during the reporting period	17.6	(21.6)	9.2	(29.5)
Available-for-sale financial assets – net fair value gain/loss on remeasurement recognized during the year	0.0	1.2	0.0	2.5
Financial assets measured at fair value through other comprehensive income (debt instruments) – net fair value gain/loss on remeasurement recognized during the year	0.0	0.0	0.0	0.0
Cash flow hedges – effective portion of changes in fair value recognized during the year and of non-designated components	(13.9)	14.5	(10.1)	14.8
Cash flow hedges – reclassification to profit or loss	1.9	(1.2)	(2.8)	3.0
Income tax relating to these components of other comprehensive income	2.5	(3.2)	2.6	(4.5)
Investments accounted for using the equity method - share of other comprehensive income (net of tax)	0.0	(0.1)	0.0	(0.1)
	8.2	**(10.4)**	**(1.2)**	**(13.8)**
Other comprehensive income – net of tax	**8.4**	**(10.4)**	**(0.6)**	**(13.8)**
Total comprehensive income	**49.6**	**64.9**	**90.7**	**136.5**
Attributable to shareholders of Lenzing AG	47.9	66.0	89.9	136.2
Attributable to non-controlling interests	1.7	(1.1)	0.8	0.4

Consolidated Statement of Financial Position

as at June 30, 2018

EUR mn

Assets	Note	30/06/2018	31/12/2017
Intangible assets		19.9	20.4
Property, plant and equipment		1,424.5	1,367.2
Investments accounted for using the equity method		8.2	8.4
Financial assets		46.1	36.4
Deferred tax assets		4.6	4.0
Current tax assets		7.0	4.9
Other non-current assets		8.4	8.9
Non-current assets		**1,518.7**	**1,450.2**
Inventories	(4)	347.4	340.1
Trade receivables	(4)	310.2	292.8
Current tax assets		2.6	0.2
Other current assets		104.1	107.6
Cash and cash equivalents		241.4	306.5
Current assets		**1,005.5**	**1,047.1**
Total assets		**2,524.2**	**2,497.3**

Equity and liabilities	Note	30/06/2018	31/12/2017
Share capital		27.6	27.6
Capital reserves		133.9	133.9
Other reserves		0.9	(1.6)
Retained earnings		1,275.0	1,316.4
Equity attributable to shareholders of Lenzing AG		**1,437.4**	**1,476.3**
Non-controlling interests		32.2	31.6
Equity	**(4)**	**1,469.6**	**1,507.9**
Financial liabilities		298.0	255.3
Government grants		19.2	18.3
Deferred tax liabilities		53.2	52.7
Provisions		127.8	131.7
Puttable non-controlling interests		18.4	18.0
Other liabilities		8.3	3.8
Non-current liabilities		**524.9**	**479.8**
Financial liabilities		110.0	127.3
Trade payables		237.1	218.4
Government grants		8.5	7.9
Current tax liabilities		15.9	21.6
Provisions		105.6	95.7
Other liabilities		52.7	38.5
Current liabilities		**529.7**	**509.5**
Total equity and liabilities		**2,524.2**	**2,497.3**

Consolidated Statement of Changes in Equity

for the period from January 1 to June 30, 2018

			Other reserves							EUR mn
	Share capital	Capital reserves	Foreign currency translation reserve	Financial assets measured at fair value through other comprehensive income[1]	Hedging reserve and non-designated components	Actuarial gains/losses	Retained earnings	Equity attributable to shareholders of Lenzing AG	Non-controlling interests	Equity
As at 01/01/2017	**27.6**	**133.9**	**67.9**	**2.4**	**(6.2)**	**(40.7)**	**1,151.1**	**1,336.1**	**32.4**	**1,368.5**
Net profit for the period as per consolidated income statement	0.0	0.0	0.0	0.0	0.0	0.0	147.3	147.3	3.0	150.3
Other comprehensive income – net of tax	0.0	0.0	(27.0)	1.9	14.0	0.0	0.0	(11.2)	(2.6)	(13.8)
Total comprehensive income	**0.0**	**0.0**	**(27.0)**	**1.9**	**14.0**	**0.0**	**147.3**	**136.2**	**0.4**	**136.5**
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	(111.5)	(111.5)	(0.1)	(111.6)
As at 30/06/2017	**27.6**	**133.9**	**40.9**	**4.3**	**7.8**	**(40.7)**	**1,187.0**	**1,360.8**	**32.6**	**1,393.4**
As at 01/01/2018 (previously)	**27.6**	**133.9**	**29.6**	**4.5**	**3.8**	**(39.6)**	**1,316.4**	**1,476.3**	**31.6**	**1,507.9**
First-time adoption of IFRS 9 (Financial Instruments)[2]	0.0	0.0	0.0	4.0	0.0	0.0	0.0	3.9	0.0	3.9
As at 01/01/2018 (adjusted)	**27.6**	**133.9**	**29.6**	**8.5**	**3.8**	**(39.6)**	**1,316.4**	**1,480.3**	**31.6**	**1,511.8**
Net profit for the period as per consolidated income statement	0.0	0.0	0.0	0.0	0.0	0.0	91.4	91.4	(0.1)	91.3
Other comprehensive income – net of tax	0.0	0.0	7.9	0.6	(10.0)	0.0	0.0	(1.5)	0.9	(0.6)
Total comprehensive income	**0.0**	**0.0**	**7.9**	**0.6**	**(10.0)**	**0.0**	**91.4**	**89.9**	**0.8**	**90.7**
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	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	(132.8)	(132.8)	(0.2)	(132.9)
As at 30/06/2018	**27.6**	**133.9**	**37.5**	**9.1**	**(6.1)**	**(39.6)**	**1,275.0**	**1,437.4**	**32.2**	**1,469.6**

1) Was classified as "available for sale" under IAS 39 (Financial instruments: recognition and measurement) in the previous year.
2) 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 1 and note 6.

Consolidated Statement of Cash Flows (condensed)

for the period from January 1 to June 30, 2018

EUR mn

		01-06/2018	01-06/2017
Net profit for the period		**91.3**	**150.3**
+	Amortization of intangible assets and depreciation of property, plant and equipment	67.4	67.9
–/+	Other non-cash income / expenses	(8.0)	8.9
Gross cash flow		**150.7**	**227.1**
+/–	Change in inventories	(5.8)	(11.3)
+/–	Change in receivables	(13.9)	(6.6)
+/–	Change in liabilities	26.8	(7.9)
Change in working capital		**7.0**	**(25.8)**
Cash flow from operating activities		**157.7**	**201.3**
–	Acquisition of intangible assets, property, plant and equipment (CAPEX)	(117.2)	(72.9)
–	Acquisition of financial assets and investments accounted for using the equity method	(1.3)	(1.0)
+	Proceeds from the sale of intangible assets, property, plant and equipment	0.8	0.1
+	Proceeds from the sale/repayment of financial assets and the sale of investments accounted for using the equity method	2.0	1.0
+	Net inflow from the sale and disposal of subsidiaries and other business areas	0.1	3.1
Cash flow from investing activities		**(115.5)**	**(69.6)**
–	Distribution to shareholders	(132.9)	(111.6)
+	Investment grants	0.2	1.5
+	Increase in other financial liabilities	72.4	3.0
–	Repayment of bonds and private placements	0.0	0.0
–	Repayment of other financial liabilities	(48.0)	(64.0)
Cash flow from financing activities		**(108.4)**	**(171.2)**
Total change in liquid funds		**(66.2)**	**(39.5)**
Liquid funds at the beginning of the year		306.5	559.6
Currency translation adjustment relating to liquid funds		1.1	(6.8)
Liquid funds at the end of the period		**241.4**	**513.2**
Additional information on payments in the cash flow from operating activities:			
Interest payments received		0.8	1.4
Interest payments made		3.3	3.6
Income taxes paid		39.1	37.4

Notes to the Consolidated Financial Statements: Selected Notes

on the condensed consolidated interim financial statements as at June 30, 2018

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, is the parent company of the Lenzing Group (the "Group"). The main shareholder of Lenzing AG as at June 30, 2018 is the B&C Group, which directly or indirectly holds an investment of 50 percent plus two shares (December 31, 2017: 50 percent plus two shares) in the share capital of Lenzing AG. The core business of the Lenzing Group is the production and marketing of botanic cellulose fibers.

The business performance of the Lenzing Group is not generally affected by significant seasonal effects.

Basis of reporting

The condensed consolidated interim financial statements for the period from January 1 to June 30, 2018 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. In particular, IAS 34 Interim Financial Reporting and its conveniences for condensed consolidated interim financial statements were applied. The condensed consolidated interim financial statements of the Lenzing Group as at June 30, 2018 are based on the consolidated financial statements as at December 31, 2017 and should therefore always be read in conjunction with these statements. The accounting policies used in the consolidated interim financial statements are the same as were applied for the consolidated financial statements for the 2017 financial year.

For the condensed consolidated interim financial statements, income tax expense is calculated in accordance with IAS 34 based on the estimated average annual tax rate expected for the financial year as a whole.

The reporting currency is euro (EUR), which is also the functional currency of Lenzing AG and a majority of its subsidiaries.

Audit and review

These condensed consolidated interim financial statements of the Lenzing Group were reviewed by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz.

Estimation uncertainty and judgments

The Management Board of Lenzing AG uses estimates, assumptions and judgments in preparing the IFRS condensed consolidated interim 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 are explained in detail in the consolidated financial statements of the Lenzing Group as at December 31, 2017 (Note 1).

Mandatory changes in accounting policies

Future application of IFRS 16

IFRS 16 (Leases) introduces changes to the accounting of leases for lessees as at January 1, 2019. The selection and implementation of software to administer and record leases for the entire Lenzing Group has been completed. At present, the recording of the leases is in progress. The estimate in accordance with the information provided in Note 2 of the Annual Report as at December 31, 2017 remains unchanged. Consequently, no material changes are expected to result from the application of IFRS 16.

Initial application of IFRS 15

The Lenzing Group first applied IFRS 15 (Revenue from Contracts with Customers) retrospectively for the financial year beginning on January 1, 2018. No material changes to the accounting methods for the timing and amount recognized for revenues from contracts with customers are required.

Initial application of IFRS 9

The Lenzing Group first applied IFRS 9 (Financial Instruments) for the financial year beginning on January 1, 2018. This results in retrospective adjustments to the consolidated financial statements as at January 1, 2018, which were made in line with the transition rules . The Lenzing Group applies the new Standard IFRS 9 for hedge accounting. The application of IFRS 9 had no effect on financial liabilities.

The exemption not to restate comparative information on the changes in classification and measurement (including impairment) for previous periods was utilized.

Overall, there are only immaterial changes based on the new measurement categories of financial instruments in the Lenzing Group. An evaluation of the business model and the cash flows connected with interest and principal payments showed that the financial assets generally reflect the categories previously applied under IAS 39 (Financial Instruments: Recognition and Measurement) or the required reclassifications are immaterial and lead to no changes of measurement.

The equity instruments previously measured at cost in accordance with IAS 39 (carrying amount as at December 31, 2017: EUR 1.6mn) and the related derivatives (carrying amount as at December 31, 2017: EUR 0.0 mn were reclassified to the category “at fair value through other comprehensive income”.

It was decided to utilize the option to measure these equity investments at fair value through other comprehensive income. The equity investment was measured at EUR 8.9 mn and the derivative was measured at EUR minus 3.4 mn. Deferred tax on these instruments was recognized in the amount of EUR 1.4 mn. A hedge between an equity instrument and a derivative was designated as a fair value hedge. The expected credit loss model for financial assets is used for the new impairment model required by IFRS 9. A loss ratio based on historical default rates has been established for portfolios with similar default characteristics. The establishment of the loss ratio does not result in any material change in the amount of impairment losses since it is also based on historical default rates which were insignificat. An immaterial expected credit loss on trade receivables of EUR minus 0.3 mn as well as of deferred tax in the amount of EUR 0.1 mn was recognized directly in equity as at January 1, 2018.

The following table shows the retrospective restatements made in accordance with the transition rules from IAS 39 to IFRS 9 as at January 1, 2018:

Reconciliation of carrying amounts by category - retrospective adaption of IFRS 9 **EUR mn**

Financial assets	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 as at 31/12/2017	Carrying amount under IFRS 9 as at 01/01/2018
Originated loans				
thereof	At amortized cost (loans and receivables)	At fair value through profit or loss	1.4	1.4
thereof	At amortized cost (loans and receivables)	At amortized cost	14.7	14.7
Non-current securities				
thereof	At fair value directly in equity - available for sale	At fair value through profit or loss	1.7	1.7
thereof	At fair value directly in equity - available for sale	At fair value directly in equity (debt instruments)	5.6	5.6
thereof	At fair value directly in equity - available for sale	At fair value directly in equity (equity instruments)	11.5	11.5
Other equity investments	**At fair value directly in equity - available for sale**	**At fair value directly in equity (equity instruments)**	**1.6**	**10.5**
Trade receivables	**At amortized cost (loans and receivables)**	**At amortized cost**	**292.8**	**292.5**
Derivatives with a positive fair value (cash flow hedges)	At fair value directly in equity (cash flow hedges)	At fair value directly in equity (cash flow hedges)	7.5	7.5
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)	At fair value through profit or loss	At fair value through profit or loss	5.2	5.2
Other financial assets (current and non-current)				
thereof	At amortized cost (loans and receivables)	At fair value through profit or loss	5.8	5.8
thereof	At amortized cost (loans and receivables)	At amortized cost	21.6	21.6
Cash and cash equivalents	**At amortized cost (loans and receivables)**	**At amortized cost**	**306.5**	**306.5**
Total financial assets			**675.7**	**684.4**

Financial liabilities	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 as at 31/12/2017	Carrying amount under IFRS 9 as at 01/01/2018
Private placements	At amortized cost	At amortized cost	248.6	248.6
Liabilities to banks	At amortized cost	At amortized cost	97.7	97.7
Liabilities to other lenders	At amortized cost	At amortized cost	34.5	34.5
Trade payables	At amortized cost	At amortized cost	218.4	218.4
Provisions (current)	At amortized cost	At amortized cost	26.5	26.5
Puttable non-controlling interests	At amortized cost	At amortized cost	18.0	18.0
Derivatives with a negative fair value (fair value hedges)	At cost	At fair value directly in equity	0.0	3.4
Derivatives with a negative fair value (cash flow hedges)	At fair value directly in equity (cash flow hedges)	At fair value directly in equity (cash flow hedges)	2.5	2.5
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)	At fair value through profit or loss	At fair value through profit or loss	1.3	1.3
Other	At amortized cost	At amortized cost	4.0	4.0
Total financial liabilities			**651.5**	**654.9**

Note 2. Consolidation

Scope of consolidation

The subsidiaries LD Celulose S.A., Sao Paulo, Brazil and LD Florestal S.A., Sao Paulo, Brazil were founded in the 2018 financial year. In this regard no significant transactions have taken place.

Basis of consolidation

Currency translation adjustments resulting from foreign currency loans are recognized in other comprehensive income., if they are part of a net investment in a foreign operation, i.e., repayment is neither planned nor likely in a foreseeable period of time,

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

Exchange rates for key currencies			2018		2017	
Unit		Currency	Reporting date 30/06	Average 01-06	Reporting date 31/12	Average 01-06
1 EUR	USD	US Dollar	1.1658	1.2108	1.1993	1.0825
1 EUR	GBP	British Pound	0.8861	0.8797	0.8872	0.8601
1 EUR	CZK	Czech Koruna	26.0200	25.4973	25.5350	26.7870
1 EUR	CNY	Renminbi Yuan	7.7170	7.7100	7.8044	7.4418

Note 3. Segment reporting

The same principles were applied in the presentation of segment reporting as in the consolidated financial statements as at December 31, 2017.

Information on business segments EUR mn

01-06/2018 and 30/06/2018	Fibers	Lenzing Technik	Other	Segment total	Reconciliation	Group
Revenue from external customers	1,068.8	5.5	1.1	**1,075.4**	0.0	**1,075.4**
Inter-segment revenue	2.2	19.2	1.4	**22.8**	(22.8)	**0.0**
Total revenue	**1,071.0**	**24.6**	**2.5**	**1,098.1**	**(22.8)**	**1,075.4**
EBITDA (segment result)	194.1	2.0	0.4	**196.4**	(1.6)	**194.8**
EBIT	126.7	1.6	0.4	**128.7**	0.0	**128.7**
EBITDA margin[1]	18.1%	8.0%	15.3%	**17.9%**		**18.1%**
EBIT margin[2]	11.8%	6.5%	14.6%	**11.7%**		**12.0%**
Segment assets	2,215.5	33.5	0.9	**2,249.9**	274.3	**2,524.2**
Segment liabilities	534.1	28.6	1.6	**564.3**	490.3	**1,054.6**

Information on business segments (previous year) EUR mn

01-06/2017 and 31/12/2017	Fibers	Lenzing Technik	Other	Segment total	Reconciliation	Group
Revenue from external customers	1,141.0	6.9	1.2	**1,149.1**	0.0	**1,149.1**
Inter-segment revenue	3.1	14.4	1.2	**18.7**	(18.7)	**0.0**
Total revenue	**1,144.1**	**21.3**	**2.4**	**1,167.8**	**(18.7)**	**1,149.1**
EBITDA (segment result)	268.1	2.0	0.5	**270.5**	0.2	**270.7**
EBIT	200.0	1.7	0.5	**202.2**	2.0	**204.2**
EBITDA margin[1]	23.4%	9.3%	20.4%	**23.2%**		**23.6%**
EBIT margin[2]	17.5%	7.8%	19.8%	**17.3%**		**17.8%**
Segment assets	2,146.7	28.5	1.4	**2,176.6**	320.7	**2,497.3**
Segment liabilities	494.3	28.9	1.8	**525.0**	464.4	**989.4**

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).

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

Reconciliation of segment result (EBITDA) to the earnings before tax (EBT) EUR mn

	01-06/2018	01-06/2017
Segment result (EBITDA)	196.4	270.5
Consolidation	(1.6)	(0.3)
Restructuring	0.0	0.5
Group result (EBITDA)	**194.8**	**270.7**
Segment amortization of intangible assets and depreciation of property, plant and equipment	(69.1)	(69.7)
Consolidation	1.6	1.8
Income from the release of investment grants	1.4	1.3
Earnings before interest and tax (EBIT)	**128.7**	**204.2**
Financial result	(8.0)	(6.2)
Allocation of profit or loss to puttable non-controlling interests	0.2	(3.3)
Earnings before tax (EBT)	**120.9**	**194.7**

For the period 1-6/2017 the line „Restructuring“ relates to other operating income of EUR 0.5 mn from restructuring measures.

The consolidated income statement shows the reconciliation of earnings before tax (EBT) to net profit for the period.

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 mn

	01-06/2018	01-06/2017
Botanic cellulose fibers	915.4	996.9
Sodium sulfate and black liquor	25.4	23.8
Pulp, wood, energy and other	130.2	123.4
Segment Fibers	**1,071.0**	**1,144.1**
Mechanical and plant engineering and engineering services	24.6	21.3
Segment Lenzing Technik	**24.6**	**21.3**
Other and consolidation	(20.3)	(16.3)
Revenue as per consolidated income statement	**1,075.4**	**1,149.1**

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

The Segment Fibers primarily sells botanic cellulose fibers. In addition, sodium sulfate and black liquor are sold, among other things. Income is recognized at a point in time, when ownership of the products has been transferred to the customer (i.e. with the transfer of risk), the amount of income and the associated costs can be reliably determined and when the economic benefits from the transaction are likely to flow to the Group.

The Segment Lenzing Technik operates in the field of mechanical and plant engineering and provides engineering services. A significant part of the income results from contracts with customers which are recognized over time.

Information on geographical regions

Revenue from external customers can be classified by geographical regions as follows:

Revenue from external customers by geographic regions EUR mn

	01-06/2018	01-06/2017
Austria	46.7	62.1
Europe (excl. Austria, incl. Turkey)	287.1	312.9
Asia	644.0	671.4
America	84.3	87.7
Rest of the world	8.9	10.0
Segment Fibers	**1,071.0**	**1,144.1**
Austria	6.8	13.4
Europe (excl. Austria, incl. Turkey)	3.5	3.1
Asia	1.8	4.2
America	12.5	0.5
Rest of the world	0.0	0.1
Segment Lenzing Technik	**24.6**	**21.3**
Other and consolidation	(20.3)	(16.3)
Revenue as per consolidated income statement	**1,075.4**	**1,149.1**

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

Additional information on the segments is provided in the management report of the Lenzing Group as at June 30, 2018.

Notes on the Primary Financial Statements and on Risk Management

Note 4. Notes on the primary financial statements

In the interim reporting period write-downs to net realizable value in the amount of EUR 1.8 mn (1-6/2017: EUR 0.3 mn) were recognized in profit or loss.

The purchase of receivables within the context of the factoring agreement was adjusted in 2017 to eliminate prepayments for purchased receivables and eliminate the assumption of the credit default risk by the bank. The usable nominal value was also adjusted. As at June 30, 2018 and December 31, 2017, no receivables were sold on the basis of the factoring agreements and derecognized in the Lenzing Group's consolidated statement of financial statements.

In the interim reporting period bad debt provisions in the amount of EUR 0.3 mn were reversed in profit or loss (1-6/2017: EUR 0.4 mn).

The amount of share capital and the number of no-par-value shares did not change in the interim reporting period. No shares were bought back. In the interim reporting period, the Management Board did not exercise the authorizations in place on or until June 30, 2018 to increase share capital, issue convertible bonds and repurchase own shares.

A resolution passed by the Annual General Meeting on April 12, 2018 again authorized the Management Board, subject to the consent of the Supervisory Board, to purchase treasury shares at an amount equaling up to 10 percent of share capital for a maximum of 30 months starting on the day the resolution was passed. The same terms and conditions as in the resolution passed by the Annual General Meeting on April 20, 2016 for the acquisition of treasury shares, which was revoked by the above-mentioned resolution, are applicable.

In addition, the Management Board was authorized as follows by resolution of the Annual General Meeting:

- Authorization of the Management Board pursuant to Section 65 para 1b of the Austrian Stock Corporation Act (AktG)
- Creation of new authorized capital
- Authorization of the Management Board to issue convertible bonds
- Conditional increase of share capital

The dividend to the shareholders of Lenzing AG was as follows:

Dividends of Lenzing AG resolved and paid	Total	Number of shares	Dividend per share
	EUR mn		EUR
Dividend for the financial year 2017 resolved at the Annual Shareholders' Meeting on April 12, 2018 (payment as of April 18, 2018)	132.8	26,550,000	5.00
Dividend for the financial year 2016 resolved at the Annual Shareholders' Meeting on April 25, 2017 (payment as of May 2, 2017)	111.5	26,550,000	4.20

Reverse factoring agreements with suppliers of the Lenzing Group were in place as at June 30, 2018. The affected trade payables totaled EUR 109.5 mn (December 31, 2017: EUR 107.5 mn).

Note 5. Capital risk management

All capital requirements were satisfied in the interim reporting period. Unused credit facilities in the amount of EUR 406.8 mn were available for possible future financing requirements as at June 30, 2018 (December 31, 2017: EUR 213.8 mn).

Note 6. Disclosures on financial instruments

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 (December 31, 2017: IAS 39 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.

Carrying amounts, category, fair value and fair value hierarchy of financial instruments — **EUR mn**

	Carrying amount						Fair value	
Financial assets as at 30/06/2018	**At amortized cost**	**At fair value through profit or loss**	**At fair value directly in equity**		**No financial instrument**	**Total**	**Fair value**	**Fair value hierachy**
			Debt instruments/ cash flow hedges	**Equity instruments**				
Originated loans	14.8					14.8	14.8	[1]
Non-current securities		1.5	6.2	12.3		20.0	20.0	Level 1
Other equity investments				11.3		11.3	11.3	Level 3
Financial assets (current and non-current)	**14.8**	**1.5**	**6.2**	**23.6**	**0.0**	**46.1**	**46.1**	
Trade receivables	**310.2**	**0.0**	**0.0**	**0.0**	**0.0**	**310.2**	**310.2**	[1]
Derivatives with a positive fair value (cash flow hedges)			0.9			0.9	0.9	Level 2
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)		0.6				0.6	0.6	Level 2
Other	22.6	4.4			84.1	111.0	111.0	Level 3[1]
Other assets (current and non-current)	**22.6**	**5.0**	**0.9**	**0.0**	**84.1**	**112.5**	**112.5**	
Cash and cash equivalents	**241.4**	**0.0**	**0.0**	**0.0**	**0.0**	**241.4**	**241.4**	[1]
Total	**588.9**	**6.5**	**7.0**	**23.6**	**84.1**	**710.1**	**710.1**	

	Carrying amount					Fair value	
Financial liabilities as at 30/06/2018	**At amortized cost**	**At fair value through profit or loss**	**At fair value directly in equity**	**No financial instrument**	**Total**	**Fair value**	**Fair value hierachy**
			Cashflow hedges/fair value hedges				
Private placements	248.6				248.6	258.2	Level 3
Liabilities to banks	125.9				125.9	125.9	Level 3
Liabilities to other lenders	31.7				31.7	31.8	Level 3
Lease liabilities				1.9	1.9	1.9	[1]
Financial liabilities (current and non-current)	**406.2**	**0.0**	**0.0**	**1.9**	**408.0**	**417.8**	
Trade payables	**237.1**	**0.0**	**0.0**	**0.0**	**237.1**	**237.1**	[1]
Provisions (current)	**23.6**	**0.0**	**0.0**	**82.0**	**105.6**	**105.6**	[1]
Puttable non-controlling interests	**18.4**	**0.0**	**0.0**	**0.0**	**18.4**	**18.4**	[1]
Derivatives with a negative fair value (cash flow hedges)			8.4		8.4	8.4	Level 2
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)		6.0			6.0	6.0	Level 2
Derivatives with a negative fair value (fair value hedges)			4.1		4.1	4.1	Level 3
Other	2.6			39.8	42.4	42.4	[1]
Other liabilities (current and non-current)	**2.6**	**6.0**	**12.6**	**39.8**	**61.0**	**61.0**	
Total	**687.8**	**6.0**	**12.6**	**123.7**	**830.0**	**839.8**	

1) The carrying amount approximates fair value.

Carrying amounts, category, fair value and fair value hierarchy of financial instruments (previous year) EUR mn

	Carrying amount						Fair value	
Financial assets as at 31/12/2017	**At amortized cost (loans and receivables)**	**At fair value through profit or loss**	**At fair value directly in equity**		**No financial instrument**	**Total**	**Fair value**	**Fair value hierachy**
			Available for sale	**Cash flow hedges**				
Originated loans	16.1					16.1	16.1	[2]
Non-current securities			18.8			18.8	18.8	Level 1
Other equity investments			1.6			1.6	1.6	[1]
Financial assets (current and non-current)	**16.1**	**0.0**	**20.3**	**0.0**	**0.0**	**36.4**	**36.4**	
Trade receivables	**292.8**	**0.0**	**0.0**	**0.0**	**0.0**	**292.8**	**292.8**	[2]
Derivatives with a positive fair value (cash flow hedges)				7.5		7.5	7.5	Level 2
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)		5.2				5.2	5.2	Level 2
Other	27.4				76.5	103.8	103.8	[2]
Other assets (current and non-current)	**27.4**	**5.2**	**0.0**	**7.5**	**76.5**	**116.5**	**116.5**	
Cash and cash equivalents	**306.5**	**0.0**	**0.0**	**0.0**	**0.0**	**306.5**	**306.5**	[2]
Total	**642.7**	**5.2**	**20.3**	**7.5**	**76.5**	**752.2**	**752.2**	

	Carrying amount					Fair value	
Financial liabilities as at 31/12/2017	**At amortized cost**	**At fair value through profit or loss**	**At fair value directly in equity**	**No financial instrument**	**Total**	**Fair value**	**Fair value hierachy**
			Cash flow hedges				
Private placements	248.6				248.6	258.1	Level 3
Liabilities to banks	97.7				97.7	97.9	Level 3
Liabilities to other lenders	34.5				34.5	34.4	Level 3
Lease liabilities				1.9	1.9	1.9	[2]
Financial liabilities (current and non-current)	**380.7**	**0.0**	**0.0**	**1.9**	**382.6**	**392.2**	
Trade payables	**218.4**	**0.0**	**0.0**	**0.0**	**218.4**	**218.4**	[2]
Provisions (current)	**26.5**	**0.0**	**0.0**	**69.2**	**95.7**	**95.7**	[2]
Puttable non-controlling interests	**18.0**	**0.0**	**0.0**	**0.0**	**18.0**	**18.0**	[2]
Derivatives with a negative fair value (cash flow hedges)			2.5		2.5	2.5	Level 2
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)		1.3			1.3	1.3	Level 2
Other	4.0			34.5	38.5	38.5	[2]
Other financial liabilities (current and non-current)	**4.0**	**1.3**	**2.5**	**34.5**	**42.3**	**42.3**	
Total	**647.7**	**1.3**	**2.5**	**105.6**	**757.1**	**766.7**	

1) Measured at cost.
2) 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 costs, at fair value through profit or loss, at fair value directly in equity.

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.

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, commodity prices 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. Valuations by banks and other parties are used to supplement the Group's own models. 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.

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. The fair value of investment funds is derived from the latest calculated value. The securities are assigned to the categories "fair value through other comprehensive income" and "fair value through profit or loss". Long-term securities are not intended for sale during the next year.

Originated loans are measured at cost orat the fair value.

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.

With IFRS 9 taking effect, the measurement of equity investments including derivatives designated as a hedge (fair value hedge) is reclassified from the category "at cost" to the category "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 above-mentioned parameters. The adjusted market multiples amount to roughly 7.2 and 9.2 as at June 30, 2018 (January 1, 2018: 7.6 and 8.1).

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.

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 investements and related derivatives — **EUR mn**

2018	**Equity investments**	**Derivatives with a negative fair value (fair value hedges)**
As at 01/01	10.5	(3.4)
Financial assets measured at fair value through other comprehensive income (equity instruments) – net fair value gain/loss on remeasurement recognized during the year	0.7	(0.7)
As at 30/06	**11.3**	**(4.1)**

A change in key input factors which cannot be observed would have the following effects on the measurement of the equity instruments and the associated derivatives:

Sensitivity analysis of level 3 input factors as at 30/06/2018 EUR mn

	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)%)	0.7	(0.2)	0.5	(0.7)	0.2	(0.5)
Market multiple (+/(1))	1.3	(1.3)	0.0	(1.3)	1.3	0.0
Change discount to market multiple (+/(10)%)	(0.5)	0.5	0.0	0.5	(0.5)	0.0

With IFRS 9 taking effect, other financial assets from earn-out agreements are reclassified from the category "at cost" to the category "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 mn

	2018
As at 01/01	5.8
Gain/loss included in financial result	(1.2)
Repayment	(0.1)
As at 30/06	**4.4**

A change in key input factors which cannot be observed would have the following effects on other financial assets:

Sensitivity analysis of level 3 input factors as at 30/06/2018 EUR mn

	Financial result	
Other financial assets	**Increase**	**Decrease**
EBITDA (+/(5)%)	0.5	(0.9)
Discount rate (WACC) after tax (+/(1)%)	(0.6)	0.7
Repayment 2 years earlier	0.2	n/a

The sensitivities are determined by conducting the measurements again using the changed parameters.

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Disclosures on Related Parties and Executive Bodies

Note 7. Related party disclosures

Contractual obligations resulted in the payment or advance payment of tax allocations totaling EUR 17.5 mn to the head of the tax group in the interim reporting period (1-6/2017: EUR 18.0 mn). Moreover, the liability recognized as at December 31, 2017 for the tax allocation to the head of the tax group was essentially adjusted as at June 30, 2018 for the estimated income tax expense based on the results for the interim reporting period.

The extent of material transactions and the amounts of outstanding balances with companies accounted for using the equity method and their material subsidiaries were as follows:

Relationships with companies accounted for using the equity method and their material subsidiaries		**EUR mn**
	01-06/2018	**01-06/2017**
Goods and services provided and other income	31.4	39.1
Goods and services received and other expenses	0.4	17.9
	30/06/2018	**31/12/2017**
Receivables	15.7	21.0
Liabilities	2.7	5.3

Note 8. Executive bodies

At the Annual General Meeting on April 12, 2018, Christoph Kollatz, Peter Edelmann and Felix Fremerey were newly elected to the Supervisory Board. Herbert Brauneis was delegated to the Supervisory Board by the Works Council as Deputy Chairman of the Works Council for Waged Employees. Felix Strohbichler and Josef Krenner retired from the Supervisory Board at their own request. Christoph Kollatz was subsequently elected new Deputy Chairman of the Supervisory Board and executes this function together with Veit Sorger.

Otherwise the composition of the Management Board and the Supervisory Board has not changed in comparison with December 31, 2017.

Other Disclosures

Note 9. Financial guarantee contracts, contingent assets and liabilities, other financial obligations and legal risks

The Lenzing Group has entered into contingent liabilities of EUR 16.5 mn (December 31, 2017: EUR 17.4 mn), above all to secure claims related to the sale of certain equity investments and claims by suppliers, for possible default of payment on sold receivables and for claims by third parties outside the Group. Less important contingencies involve granted retentions. The reported amounts represent the maximum payment obligation from the view-point of the Lenzing Group, and there is only a limited potential for recoveries in connection with obligations and liabilities relating to the claims of certain sold equity investments.

The Lenzing Group provides committed credit lines of EUR 19.5 mn (December 31, 2017: EUR 19.5 mn) to third parties. These credit lines were not in use as at June 30, 2018.

The obligations from outstanding orders for intangible assets and property, plant and equipment amounted to EUR 79.9 mn as at June 30, 2018, (December 31, 2017: EUR 123.7 mn). The Lenzing Group has long-term purchase obligations related to raw material supplies, in particular for wood, chemicals and energy.

Note 10. Significant events after the end of the reporting period

The Lenzing Group is not aware of any significant events occuring after the reporting date on Jun 30, 2018 which would have resulted in a different presentation of its financial position and financial performance.

Lenzing, August 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

Declaration of the Management Board

Declaration of the Management Board according to Section 125 Para 1 No. 3 of the Stock Exchange Act

We confirm to the best of our knowledge that the condensed consolidated interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed consoledated interim financial statements, of the principal risks and uncertainties for the remaining six months of the financial year and of the major related party transactions to be disclosed.

Lenzing, August 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

Report on the Review of the condensed Interim Consolidated Financial Statements

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of Lenzing Aktiengesellschaft, Lenzing, for the period from 1 January 2018 to 30 June 2018. These condensed interim consolidated financial statements comprise the consolidated statement of financial position as of 30 June 2018 and the consolidated income statement, consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and consolidated statement of changes in equity for the period from 1 January 2018 to 30 June 2018 and the condensed notes, summarizing the significant accounting policies and other explanatory notes.

Management is responsible for the preparation of the condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRS's) for Interim Reporting as adopted by the EU.

Our responsibility is to express a conclusion on these condensed consolidated interim financial statements.

Scope of review

We conducted our review in accordance with Austrian Standards for Chartered Accountants, in particular in compliance with KFS/PG 11 "Principles of Engagements to Review Financial Statements", and with the International Standard on Review Engagements (ISRE 2410) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity“. A review of interim financial statements is limited primarily to making inquiries, primarily of Company personnel, responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Austrian Standards on Auditing and/or International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing came to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standards (IFRS's) for Interim Reporting as adopted by the EU.

Statement on the consolidated interim management report for the 6 month period ended 30 June 2018 and on management's statement in accordance with § 125 Austrian Stock Exchange Act (BörseG)

We have read the consolidated interim management report and evaluated whether it does not contain any apparent inconsistencies with the condensed interim consolidated financial statements. Based on our evaluation, the consolidated interim management report does not contain any apparent inconsistencies with the condensed interim consolidated financial statements.

The interim financial information contains the statement by management in accordance with § 125 par. 1 subpar. 3 Austrian Stock Exchange Act.

KPMG

Linz, August 3, 2018
KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Gabriele Lehner
Austrian Chartered Accountant

Note: The condensed interim consolidated financial statements together with our review report mey be published or transmitted only as agreed by us. This report is a translation of the original report in German, which is solely valid.

Glossary

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 statement of cash flows.

Earnings per share
The share of net profit/loss for the year (/the period) 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).

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 percent 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 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 percent of revenue.

EBT (earnings before tax)
Profit/loss for the year (/the period) 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 and the sale of investments accounted for using the equity method. 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.

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 gearing
Net financial debt as a percent of adjusted equity.

Net profit/loss for the year (/the period)
Profit/loss after tax; net profit/loss. The precise derivation can be found in the consolidated income statement.

Post-employment benefits
Provisions for severance payments and pensions.

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 percent 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

Note:

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

This interim group report also includes forward-looking statements based on current assumptions and estimates that are made to the best of its knowledge by the Lenzing Group. Such forward-looking statements can be identified by the use of terms such as "should", "could", "will", "expect", "assume", "predict", "estimate", "intend", "believe", "plan", "anticipate", "is of the opinion", "to our knowledge", "in our estimation" 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 at the date on which this interim 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.

The figures shown in these consolidated interim financial statements and notes were rounded to the next million ("mn") and to one decimal place, unless stated otherwise. Calculation differences may arise when rounded amounts and percentages are summed. The interim report was prepared with great accuracy in order to ensure that the information provided herein is correct and complete. Rounding, type-setting and printing errors can nevertheless not be completely ruled out.

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