Lenzing
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# Stand up!

## How Lenzing commits to future generations

Half-Year Report 01-06/2020 | **Lenzing Group**

# Selected Indicators of the Lenzing Group

### Key earnings and profitability figures

| EUR mn | 01-06/2020 | 01-06/2019 | Change |
|---|---|---|---|
| Revenue | 810.2 | 1,088.5 | (25.6 %) |
| EBITDA (earnings before interest, tax, depreciation and amortization) | 96.7 | 181.2 | (46.6 %) |
| EBITDA margin | 11.9 % | 16.6 % | |
| EBIT (earnings before interest and tax) | 17.6 | 105.6 | (83.4 %) |
| EBIT margin | 2.2 % | 9.7 % | |
| EBT (earnings before tax) | 9.5 | 102.6 | (90.7 %) |
| Net profit/loss for the year (/the period) | (14.4) | 76.8 | n/a |
| Earnings per share in EUR | 0.06 | 2.97 | (98.1 %) |

### Key cash flow figures

| EUR mn | 01-06/2020 | 01-06/2019 | Change |
|---|---|---|---|
| Gross cash flow | 63.9 | 163.6 | (61.0 %) |
| Cash flow from operating activities | (17.7) | 123.8 | n/a |
| Free cash flow | (285.7) | 28.8 | n/a |
| CAPEX | 268.7 | 95.1 | 182.7 % |
| **EUR mn** | **30/06/2020** | **31/12/2019** | **Change** |
| Liquid assets | 594.5 | 581.0 | 2.3 % |
| Unused credit facilities | 157.9 | 266.6 | (40.8 %) |

### Key balance sheet figures

| EUR mn | 30/06/2020 | 31/12/2019 | Change |
|---|---|---|---|
| Total assets | 3,433.5 | 3,121.1 | 10.0 % |
| Adjusted equity | 1,435.9 | 1,559.3 | (7.9 %) |
| Adjusted equity ratio | 41.8 % | 50.0 % | |
| Net financial debt | 701.4 | 400.6 | 75.1 % |
| Net debt | 809.3 | 511.4 | 58.3 % |
| Net gearing | 48.8 % | 25.7 % | |
| Trading working capital | 435.6 | 403.5 | 7.9 % |
| Trading working capital to annualized group revenue | 31.7 % | 20.7 % | |

### Key stock market figures

| EUR | 30/06/2020 | 31/12/2019 | Change |
|---|---|---|---|
| Market capitalization in mn | 1,093.9 | 2,198.3 | (50.2 %) |
| Share price | 41.20 | 82.80 | (50.2 %) |

### Employees

| | 30/06/2020 | 31/12/2019 | Change |
|---|---|---|---|
| Number (headcount) | 7,225 | 7,036 | 2.7 % |

The above financial indicators are derived primarily from the Lenzing Group's condensed consolidated interim financial statements and the 2019 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 2019 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,

The past months have been marked by the COVID-19 pandemic, also at Lenzing. The resulting crisis had a very negative impact on the entire textile and apparel industry, increasing the price and volume pressure on the global fiber market even further. Lenzing responded quickly and flexibly to this very challenging market environment. Our measures focused on the health and safety of our employees and our partners along the entire value chain and on ensuring our sustainable business development. Thanks to our diversified sCore TEN corporate strategy, we were able to partly compensate for the effect on revenue and earnings. Revenue, at EUR 810.2 mn, was 25.6 percent lower than in the previous year. EBITDA decreased by 46.6 percent to EUR 96.7 mn.

Strategically, we are still fully on track. The implementation of key projects in Thailand and Brazil is progressing according to plan. In Thailand, the largest production facility for lyocell fibers in the world is currently being built. In Brazil, the world's largest pulp plant of its kind is under construction. After the announcement regarding the pulp plant in December 2019, the Duratex Group acquired a 49 percent share in the joint venture in the first quarter of 2020 as agreed. The project is financed through long-term debt. The relevant contracts were concluded in the second quarter as planned.

**”**

**Our measures focused on the health and safety of our employees and our partners along the entire value chain and on ensuring our sustainable business development.**

In addition, the second pilot line for our TENCEL™ Luxe branded filament yarn in Lenzing was completed in the first quarter of 2020. The new facility now provides sufficient capacity for the development of commercial programs and further fiber applications.

These substantial investments will support us not only along our transformation towards becoming a supplier of eco-friendly specialty fibers but also in implementing our ambitious climate targets, thus further increasing our company value. The Sustainability Report 2019 sets out how Lenzing is actively dealing with the global challenges. With the implementation of the science-based target, Lenzing actively contributes to mastering the problems caused by climate change. Climate change is the greatest challenge humanity is currently facing. With our strategic commitment to becoming climate-neutral by 2050, we help to reduce the speed of global warming and to achieve the targets of the Paris climate agreement.

We intensified the collaboration with our partners along the value chain very quickly to meet the strong demand for hygiene and protective products for the population and medical personnel during the current COVID-19 crisis. Today we are proud that we were able to achieve our goal of an industrial production of high-quality protective masks with our partner Palmers and the joint venture Hygiene Austria and, consequently, to optimally support Austria and Europe in fighting the pandemic.

The current situation puts many customers and partners along the textile value chain under pressure. In the interests of customer intimacy and long-term partnerships, Lenzing will continue to support its partners in specific areas. Lenzing relied on largely stable production also during the lockdown, increasing stock levels in order to avoid putting its own delivery service level and the supply of customers with sustainably produced cellulosic fibers at risk.

The 76th Annual General Meeting of Lenzing AG, which was held in a virtual form via livestream due to the COVID-19 pandemic, followed the proposal of the Management Board on June 18, 2020 and resolved not to distribute a dividend for the 2019 financial year.

I would also like to take this opportunity to welcome our new Management Board members, Stephan Sielaff and Christian Skilich, to Lenzing. Stephan Sielaff succeeded Heiko Arnold as Chief Technology Officer in March 2020. Christian Skilich assumed management responsibility for the new "Pulp & Wood" Division in June 2020. By creating this division, our strategic focus on strongly increasing our own supply with pulp is now also reflected in the composition of the Management Board.

On behalf of the entire Management Board, I would like to thank our employees for their commitment and our national and international shareholders as well as our customers around the world for their trust.

Yours

**Stefan Doboczky**

**In the first half of 2020, Lenzing benefited from its diversified business model with the textile and nonwoven fibers segments as well as a global production, sales and marketing network.**

# Management Report 01-06/2020

# General Market Environment

## Global economy[1]

The COVID-19 pandemic and the restrictions imposed on large parts of public and economic life will push the global economy into a deep recession. The International Monetary Fund expects a decline in global economic performance by 4.9 percent for 2020, which is another significant downward revision of its previous forecast. Next year, the global economy is expected to grow by 5.4 percent. However, such an economic recovery is subject to the containment of the pandemic in the second half of 2020 as well as a normalization of economic activity.

## World fiber market[2]

The COVID-19 crisis had a very negative impact on the entire textile and apparel industry in the first half of 2020, starting with retail, and therefore also on the global fiber market. After the trade conflict between the USA and China had already led to a significantly more difficult demand situation in 2019, the closure of retail stores caused a strong decline in demand for textiles and apparel during the reporting period, initially in China and subsequently in virtually all markets worldwide. In the USA and major European markets, revenues in brick-and-mortar stores partly dropped by more than 80 percent. The gradual easing of measures and opening of shops towards the end of the reporting period only led to a subdued return of demand.

At the same time, the high demand for medical and hygiene products caused the price of nonwoven fibers to temporarily increase to 12,550 RMB/ton. As COVID-19 measures were gradually eased, prices declined slightly towards the end of the reporting period, but, at 11,150 RMB/ton as at June 30, still exceeded the level at the beginning of the year by 15.5 percent and were also a significantly higher than textile fiber prices.

In this exceptional market environment, the cotton market was characterized by low demand and recorded a further increase in inventories and a sharp decline in prices. Cotton prices dropped to about 60 US cents per pound in the first quarter according to the Cotlook A-Index – the lowest value in more than 10 years. In the second quarter, the price recovered slightly and amounted to roughly 68 US cents per pound as at June 30. This corresponds to a decline by 12.7 percent compared with the beginning of the year. On average, the cotton price was 14.5 percent lower in the first half of 2020 than in the comparative period of the previous year.

After a relatively good start to 2020, demand also held off in the polyester market as a result of the lockdown. The strong decline in oil prices resulting from a dispute about production limits between Saudi Arabia and Russia had an additional negative impact. Subsequently, the price for polyester plummeted and marked a historic low of 5,290 RMB/ton at the end of April and eventually recovered slightly the further course of the second quarter. As of June 30, the polyester price in China amounted to 5,600 RMB/ton, down 18.8 percent lower on the beginning of the year. The average price in the first half of 2020 was 27.2 percent lower than in in the prior-year period.

The prices for standard viscose, as well as for polyester, were at a historic low as at December 31, 2019 due to surplus capacity. In the first quarter, maintenance shutdowns and production cuts in China led to a temporary stabilization of prices. However, the large-scale lockdown and falling raw material prices led to a new all-time low of 8,700 RMB/ton in China by the end of April. The price for standard viscose then also failed to recover on a sustained basis. The price thus fell by 6.9 percent to 8,800 RMB/ton over the entire reporting period. Compared with the previous year, this is a decline by 22.5 percent. The price for standard viscose was on average 26.5 percent lower in the first half of 2020 than in the comparative period of the previous year.

The general slump in demand on the fiber market, coupled with a significant price gap to other fiber types, increasingly also had a negative effect on the prices of wood-based specialty fibers in the first half of the year.

[1] Source: IMF, World Economic Outlook, June 2020
[2] All production figures in this section have been updated from the first estimates given in the Annual Report 2019.

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

# The Development of Business in the Lenzing Group

The Lenzing Group held its ground well in this extremely difficult market environment with increased pressure on prices and volumes as a result of the COVID-19 crisis. In the first half of 2020, Lenzing benefited from its diversified business model with the textile and nonwoven fibers segments as well as a global production, sales and marketing network. In order to reduce the effect of fiber prices and demand for fibers, which had come under pressure, Lenzing intensified its cooperation with partners along the value chains and was flexible and agile in adjusting production volume to demand. The disciplined implementation of the sCore TEN corporate strategy and the focus on specialty fibers also had a positive impact again. Lenzing intensified measures for structural earnings improvements and made use of the short-time work model, which was temporarily introduced by the Austrian Federal Government, for roughly 1,500 employees during the reporting period to allow for the required flexibility.

The immediate effects of the COVID-19 crisis further increased price pressure on textile fibers across the entire product range. As a result, revenue declined by 25.6 percent from EUR 1.09 bn to EUR 810.2 mn in the first half of 2020. In addition to price effects, Lenzing also felt the decline in demand for textile fibers in all regions. The slightly higher demand for fibers in the medical and hygiene segments reduced the losses, but could not offset them. The share of specialty fibers increased from 48.4 percent in the first half of the previous year to 59.7 percent.

The segment Fibers accounted for EUR 803.4 mn of the Lenzing Group's revenue in the first half of 2020, while the segment Lenzing Technik contributed EUR 5.9 mn. Revenue of the segment Other amounted to EUR 0.9 mn in the reporting period.

The earnings development essentially reflects the decline in revenue. The implementation of measures for structural earnings improvements in all regions mitigated this negative effect. EBITDA (earnings before interest, tax, depreciation and amortization) fell by 46.6 percent to EUR 96.7 mn. The EBITDA margin decreased from 16.6 percent to 11.9 percent in the reporting period. EBIT (earnings before interest and tax) dropped by 83.4 percent to EUR 17.6 mn and the EBIT margin fell from 9.7 percent to 2.2 percent. EBT (earnings before tax) decreased by 90.7 percent to EUR 9.5 mn. Net loss for the period amounted to EUR minus 14.4 mn (compared to net profit of EUR 76.8 mn in the first half-year of 2019) and earnings per share to EUR 0.06 (compared to EUR 2.97 in the first half-year of 2019).

Details on the development of revenue and earnings in the first half of 2020 are as follows:

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

| | | | Change | |
|---|---|---|---|---|
| | **01-06/2020** | **01-06/2019** | **Absolute** | **Relative** |
| **Revenue** | **810.2** | **1,088.5** | **(278.3)** | **(25.6)%** |
| Change in inventories, own work capitalized, other operating income and fair value measurement of biological assets | 58.5 | 87.3 | (28.8) | (33.0)% |
| Cost of material and other purchased services | (466.7) | (659.9) | 193.2 | (29.3)% |
| Personnel expenses | (184.6) | (200.7) | 16.1 | (8.0)% |
| Other operating expenses | (120.7) | (133.9) | 13.2 | (9.9)% |
| **EBITDA** | **96.7** | **181.2** | **(84.5)** | **(46.6)%** |
| Amortization and depreciation | (80.1) | (77.0) | (3.1) | 4.0% |
| Income from the release of investment grants | 1.0 | 1.4 | (0.4) | (30.7)% |
| **EBIT** | **17.6** | **105.6** | **(88.0)** | **(83.4)%** |
| Financial result | (8.0) | (3.0) | (5.0) | 165.7% |
| **EBT** | **9.5** | **102.6** | **(93.0)** | **(90.7)%** |
| Income tax expense | (24.0) | (25.8) | 1.9 | (7.2)% |
| **Net profit/loss for the period** | **(14.4)** | **76.8** | **(91.2)** | **n/a** |

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

The cost of material and other purchased services declined by 29.3 percent to EUR 466.7 mn in the first half of 2020. In relation to revenue, the cost of material and other purchased services amounted to 57.6 percent in the reporting period (compared to 60.6 percent in the first half-year of 2019). This was attributable to lower production volumes and declining market prices, in particular for pulp, caustic soda and energy. Personnel expenses declined by 8 percent to EUR 184.6 mn as the option of short-time work at the Austrian locations was used. In relation to the Lenzing Group's revenue, personnel expenses amounted to 22.8 percent (compared to 18.4 percent in the first half-year of 2019).

Income tax expense of EUR 24 mn (compared to EUR 25.8 mn in the first half-year of 2019) is primarily influenced by currency effects and the impairment of deferred tax assets recognized on loss carryforwards of individual group companies.

## Increased investment activity

Gross cash flow in the first half of 2020 fell by 61 percent to EUR 63.9 mn compared to the first half of the previous year. This decrease was above all due to the earnings development. Cash flow from operating activities dropped to EUR minus 17.7 mn (compared to EUR 123.8 mn in the first half-year of 2019). Free cash flow amounted to EUR minus 285.7 mn (compared to EUR 28.8 mn in the first half-year of 2019) due to investment activities related to the projects in Thailand and Brazil. CAPEX (expenditures for intangible assets, property, plant and equipment and biological assets) roughly tripled to EUR 268.7 mn in the first half of 2020.

Liquid assets were almost stable compared with the end of 2019 and amounted to EUR 594.5 mn as at June 30, 2020. The Lenzing Group also had unused credit lines totaling EUR 157.9 mn at its disposal at the end of the reporting period (December 31, 2019: EUR 266.6 mn).

## Solid balance sheet structure

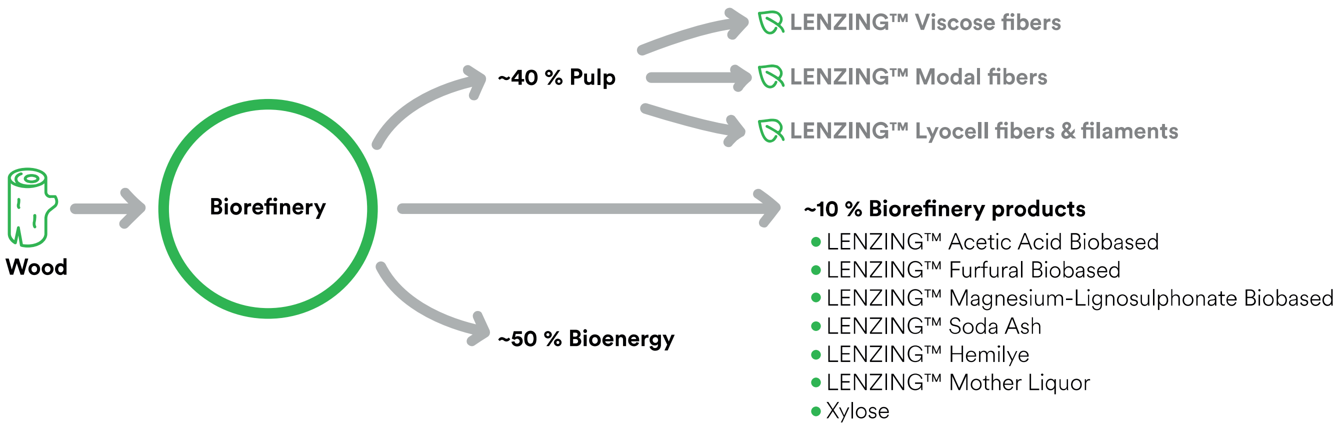
The Lenzing Group's total assets rose by 10 percent compared to December 31, 2019 and amounted to EUR 3.43 bn as of June 30, 2020. The main changes are related to an increase in property, plant and equipment due to increased investment activities and the inclusion of biological assets in the form of trees used as a raw material for pulp production in Brazil.

Adjusted equity decreased by 7.9 percent in the first half of 2020, primarily due to measurement effects from hedging against currency risks related to the investment projects in Thailand und Brazil and amounted to EUR 1.44 bn as at June 20, 2020. Accordingly, the adjusted equity ratio declined from 50 percent to 41.8 percent. Net financial debt rose by 75.1 percent to EUR 701.4 mn during the reporting period.

# The Development of Business in the Segments

## Segment Fibers

**From wood to fiber**




The Segment Fibers comprises all production steps of the Lenzing Group from wood, pulp and biorefinery products to fibers. In the first half of 2020, activities in the Segment Fibers focused on expanding the internal production of pulp and increasing the share of specialty fibers in line with the sCore TEN strategy. The focus was on the implementation of the major projects in Brazil and Thailand. The COVID-19 crisis and the general decline in demand for fibers on the global market also had a negative impact on the Lenzing Group's fiber sales volume and led to lower capacity utilization of the pulp and fiber production facilities, and to increased stock levels.

Revenue in the Segment Fibers decreased by 25.8 percent to EUR 804.9 mn in the first half of 2020. The segment's EBITDA (earnings before interest, tax, depreciation and amortization) fell by 47.1 percent to EUR 95.4 mn and EBIT (earnings before interest and tax) declined by 85 percent to EUR 15.6 mn.

### Wood

The Central European wood market, which is relevant for the Lenzing Group's wood procurement, is still marked by strong climatic influences. Large quantities of damaged and calamity wood had a negative effect on the volume and price structure on the market again in the first half of 2020. The COVID-19 crisis intensified this trend further. Significant oversupply consequently coincided with weaker industry demand, especially for spruce wood, causing a further decrease in prices. This also led to considerable oversupply and declining prices for hardwood.

The Lenzing Group secured good supplies for its two pulp plants in Lenzing (Austria) and Paskov (Czech Republic) during the reporting period. An audit according to the forestry certification systems Forest Stewardship Council® (FSC®) and Programme for the Endorsement of Forest Certification™ (PEFC™) confirmed that, in addition to compliance with the strict forestry regulations in the supplying countries, all wood used at the two locations comes from PEFC™ and FSC® certified or controlled sources[1].

### Biorefinery

#### Pulp

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

A total of roughly 300,000 tons of dissolving wood pulp was produced at the Lenzing Group's two pulp plants in the first half of 2020, each contributing roughly the same share. The average spot market price for dissolving wood pulp in China fell by 27 percent to USD 628/ton due to the extremely difficult market environment for standard viscose and paper pulp. The spot market price for pulp amounted to USD 608/ton as at June 30, 2020.

In the first half of 2020, the expansion project was completed and the new production capacities were started up at the Paskov plant. As a result, Lenzing increased the local pulp capacity to 285,000 tons per year.

Increasing the internal production of dissolving wood pulp is a key element in the implementation of the sCore TEN strategy. After the announcement of the construction of the dissolving wood pulp plant in December 2019, the Duratex Group acquired a 49 percent

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

share in the joint venture LD Celulose in the first quarter of 2020 as agreed. Lenzing holds 51 percent of the shares in this fully consolidated subsidiary. The expected Industrial CAPEX will be USD 1.38 bn.

The project is predominantly financed through long-term debt. The corresponding financing contracts were concluded in the second quarter of 2020 as planned. IFC, a member of the World Bank Group, and IDB Invest, a member of the IDB Group, are co-leading a USD 1.1 billion financing to the joint venture LD Celulose. The export credit agency Finnvera and seven commercial banks are participating in the financing.

In planning the new production facility, particular importance was given to sustainability aspects. The joint venture secured FSC®-certified plantations covering an area of over 44,000 hectares to provide the necessary biomass[1]. These plantations operate fully in accordance with the guidelines and high standards of the Lenzing Group for sourcing wood and pulp. The plant will be one of the world's most productive and most efficient plants and feed more than 40 percent of the electricity generated into the public grid as "green energy". With this project, Lenzing sets a milestone in the implementation of its carbon neutrality strategy.

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

The prices for the biorefinery products LENZING™ Acetic Acid Biobased and LENZING™ Furfural Biobased developed at a low level in the first half of 2020. The prices of LENZING™ Acetic Acid Biobased and LENZING™ Furfural Biobased declined by an average of 7 percent and 19 percent, respectively. A lifecycle analysis performed by the research institute Quantis confirmed that the carbon footprint of LENZING™ Acetic Acid Biobased is more than 85 percent lower than comparable products based on fossil resources. Customers increasingly perceive this product advantage as a benefit.

## Energy
The Lenzing Group's procurement strategy for the main cost components, electricity and natural gas, is generally based on spot market prices. In Northern and Western Europe, the price for natural gas came under pressure again due to the warm winter and this price effect was further intensified by the COVID-19 pandemic. As a result, the spot market prices halved in comparison with the prior-year period. Low gas prices and the high supply of renewable energies also had a significant influence on the European electricity market. The national spot market price, which is relevant for the locations in Lenzing and Heiligenkreuz, was on average roughly 36 percent lower than in the prior-year period. The Lenzing Group took advantage of this strong decline in wholesale energy prices and fixed electricity and gas prices for part of the required volume for the period from the beginning of the first quarter until the end of the third quarter of 2020. The COVID-19 pandemic briefly caused a historic oversupply in the oil market and negative prices in the USA. Since the beginning of the year, the decline in prices has added up to about 36 percent compared with the same period of the previous year.

No fossil fuels were required for normal operations at the plant in Paskov during the reporting period. Surplus energy was fed into the public electricity grid. The plant in Purwakarta (Indonesia) was operated with high availability and further optimized. As the coal price in Asia is still very high historically speaking, energy costs continued to be high in the first half of 2020. Steam costs at the Nanjing plant (China) have been reduced since December 2019. The changeover in energy production from coal to natural gas, which is intended to reduce CO2 emissions, was pushed ahead.

## Other raw materials
The COVID-19 pandemic and the related economic uncertainty led to in part significant declines in the prices for caustic soda and sulfur in the first half of 2020.

Caustic soda is used in the production of pulp and is also an important primary product for the production of viscose fibers. Caustic soda prices continued to decline in Europe and Asia during the reporting period.

Sulfur is an important basic product for the production of carbon disulfide and sulfuric acid, which are used in the production of viscose fibers. Due to the general economic slowdown, prices dropped significantly both in Europe and in the Asian region.

[1] FSC license code: FSC-C006042

# Fibers

Specialty fibers are Lenzing's great strength. The strategic target to generate roughly 50 percent of revenue with specialty fibers in 2020 has been met. Lenzing aims for further organic growth in this area in order to be even more resilient to volatile markets in the future. The focus of the coming years will clearly be on the construction of the new, state-of-the-art lyocell plant in Thailand, with the objective to increase the share of specialty fibers in the revenue generated by the Segment Fibers to more than 75 percent by 2024. The investment for the new plant with a capacity of 100,000 tons amounts to roughly EUR 400 mn. Construction work started in the second half of 2019 and went according to plan during the reporting period. Production is expected to be launched at the end of 2021.

With the repositioning of its product brands, the Lenzing Group sent a strong message to consumers in 2018. With TENCEL™ as the umbrella brand for all specialty products in the textile segment, VEOCEL™ as the umbrella brand for all specialty nonwoven products and LENZING™ for all industrial applications, the company showcases its strengths in a targeted manner. Lenzing continued to increase the visibility of its brands through targeted communication measures in the first half of 2020.

## Textile fibers

The textile fiber business was severely impacted by the COVID-19 pandemic and the related restrictions imposed on economic and public life in the first half of 2020. The outbreak of the novel disease had already massively affected the textile value chain in the first quarter starting in China. The closure of retail stores as well as spinning mills and clothing manufacturers caused a decline in demand for basically all fiber types by Chinese customers. As the pandemic spread globally in the second quarter, the impact on the textile and apparel industry became even stronger. The lockdown measures led to significant losses in revenue, which were compensated for only to a very limited extent by an increase in online business.

In the USA and major European markets, revenues in brick-and-mortar stores partly dropped by more than 80 percent. At the same time, the textile industry came to a standstill in important manufacturing countries in Southeast Asia and in Turkey. These developments led to unparalleled revenue losses across all fiber types in the second quarter.

The current situation puts many customers and partners along the textile value chain under pressure. Considering the development of standard fibers, Lenzing therefore also supported its customers regarding prices in the area of specialty fibers and offered a particularly high level of supply flexibility in the interests of continued long-term partnerships. Lenzing continued to increase stock levels during the lockdown in order to be able to meet customer needs in the most agile manner possible.

Lenzing structures its marketing activities in the textile business along the subsegments denim (jeans), innerwear (underwear, nightwear, T-shirts and tops), active wear and outerwear (sportswear, shirts, dresses, etc.) and home & interiors (bed linen, towels, carpets and covers). Depending on the segment, different subtypes of viscose, modal or lyocell fibers addressing the specific functional requirements of the segments are in demand. In the innerwear segment, for example, different modal fibers are primarily used as they are particularly soft and gentle on the skin. The denim (jeans) segment, in contrast, predominantly uses lyocell fibers due to their strength and sustainability to complement – or as an alternative to – the prevailing cotton fibers.

Lyocell fibers stand out in particular due to their high environmental compatibility in comparison with other fiber types. Many clothing producers looking for alternatives to synthetic fibers or cotton therefore use them increasingly. In addition, Lenzing offers TENCEL™ x REFIBRA™ fibers as a special sub-category. The REFIBRA™ technology is the world's only technology for the production of new lyocell fibers based on scraps left over from the production of cotton clothing as well as worn clothing on an industrial scale. With the development of the REFIBRA™ technology, Lenzing makes an important contribution to promoting the circular economy in the fashion industry.

Lenzing uses blockchain technology to support its specialty fiber business, ensuring complete transparency and traceability for brands and consumers of its fibers in the finished garment. In cooperation with the Hong Kong based technology company TextileGenesis™, pilot projects have already been carried out with several fashion brands, including in the first half of 2020.

The TENCEL™ brand's visibility was further increased in the first half of the year despite the ongoing COVID-19 crisis. Compared with the first half of 2019, the number of end products labeled with the TENCEL™ increased by 8 percent to 97 mn. Lenzing extended its #MakeItFeelRight initiative, which among other things raises awareness for sustainable fashion in cooperation with the international lifestyle magazines Vogue and Cosmopolitan, to the online channels of the TENCEL™ brand in the first half of 2020 and reached more than 41 million consumers across the globe.

Thanks to the digital marketing concept "Where to buy" on the product website www.tencel.com, products with TENCEL™ fibers can be presented and linked in the online shops of more than 180 partners now, including such renowned brands as H&M, Levi's, Allbirds, Victoria Secret, Esprit, Pottery Barn and Asos as well as new brands like Ted Baker, The North Face, Patagonia, Guess and New Balance. The product website www.tencel.com was visited about 590,000 times in the first half of 2020, which is 51 percent more often than in the comparative period of the previous year.

Lenzing's fibers were also a great success at this year's Oscar ceremony in Los Angeles. Three dresses worn by nominees and winners were handmade from fabrics with TENCEL™ Luxe filaments. The strong response on social media accelerated awareness for this sustainable and innovative product of the Lenzing Group.

In the first quarter of 2020, Lenzing completed the second pilot production plant for its TENCEL™ Luxe branded filament yarn. The new facility at the Lenzing site with a total investment of EUR 30 mn provides sufficient capacity for the development of commercial programs and further fiber application.

## Nonwoven fibers

The nonwoven fibers business benefited from the urgent need for medical and hygiene products in the first half of 2020. Growing hygiene awareness as a result of the COVID-19 pandemic led to an increase in demand for (wet) wipes. Strong demand for personal protective equipment such as face masks also had a positive effect on the business development. This global trend also supported the prices for nonwoven fibers in the first half of the year. Thanks to high flexibility and agile production adaptations, Lenzing was able to meet the higher demand, thus making a valuable contribution to containing the pandemic.

The trend towards more sustainable solutions based on renewable resources and biodegradable materials, coupled with new regulations such as the EU's single-use plastics directive issued in 2019, support the demand for Lenzing fibers for nonwovens. In accordance with the directive, the EU requires uniform labeling of plastics in wet wipes. With its wood-based VEOCEL™ branded cellulosic fibers, Lenzing offers an eco-friendly alternative to fossil-based fibers, which also meet all requirements regarding comfort and strength. The manufacturers of personal care and hygiene products can label their products with the logo of the VEOCEL™ brand provided they meet defined criteria, and increase consumers' trust by increasing transparency.

Lenzing achieved a global reach of more than 30 million with its #It'sInOurHands environmental initiative in the first half of 2020, thus not only increasing the visibility of the VEOCEL™ brand but also raising awareness of an eco-friendly use of wet wipes. The initiative was launched in the fourth quarter of 2019 and informs consumers that most wet wipes available on the market contain plastics, which are very harmful for the environment. Under the motto "We say YES to wood" it directed the focus on wood-based cellulosic fibers as a sustainable alternative in the second quarter of this year.

**Fibers for industrial applications**

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

### Co-products of fiber production

The Lenzing Group produces LENZING™ sodium sulfate as a co-product at all locations where viscose or modal fibers are made. It is used in the detergent and glass industries and for the production of food and animal feed. The bagging plant in Lenzing, which was commissioned in 2019, enables the development of new customer segments which cannot be served with bulk goods. Since 2019 Lenzing has also produced and marketed another co-product, LENZING™ calcium sulfate.

Lenzing recorded a largely stable result in the area of co-products in the first half of 2020.

## Segment Lenzing Technik

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

Revenue and earnings of Lenzing Technik recorded a positive development in the first half of 2020 in comparison with the prior-year period, despite tangible effects of the COVID-19 pandemic. This was primarily due activities for the Lenzing Group's important key projects and the positive business development in filtration and separation technology. The mechanical construction business area was involved in activities for the investment project in Thailand as well as smaller contracts in Lenzing and other Group locations in the first half of 2020.

Revenue in the segment Lenzing Technik increased by 11.3 percent to EUR 14.2 mn in the first half of 2020, of which EUR 5.9 mn was contributed by customers outside the Lenzing Group (compared to EUR 5 mn in the first half-year of 2019). EBITDA rose to EUR 1.2 mn (compared to EUR 0.8 mn in the first half-year of 2019) and EBIT, at EUR 0.6 mn, also exceeded the prior-year figure of EUR 0.3 mn.

## Segment Other

Revenue in the segment Other amounted to EUR 2.2 mn in the first half of 2020 (compared to EUR 2.9 mn in the first half-year of 2019). EBITDA and EBIT remained unchanged at EUR 0.6 mn and EUR 0.5 mn, respectively.

## The Lenzing share

The development of the Lenzing share reflected the exceptional market environment caused by the influence of the COVID-19 pandemic, and the general stock market development in the first half of 2020. The Lenzing share started the 2020 trading year with a price of EUR 84.35. The annual low of EUR 37.54 was recorded in March, at the beginning of the lock-down measures in Europe. At the end of the reporting period, the Lenzing share closed at EUR 41.20, down 50.2 percent on the price at the beginning of the year. The Vienna lead index ATX closed the first half of 2020 with a minus of 29.5 percent.

The share of Lenzing AG is currently covered by six analysts, whose estimates point to buy, hold and sell. The 76th Annual General Meeting of Lenzing AG, which was held in a virtual form via livestream due to the COVID-19 pandemic, resolved on June 18, 2020 not to distribute a dividend for the 2019 financial year (compared to EUR 5.00 per share in the previous year). 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 2020 is based on estimates of the top management of the Lenzing Group and covers the main business risks for 2020 and mid-term. As visibility is very limited due to the global COVID-19 crisis, it is currently very difficult to estimate business risks because they strongly depend on the duration and intensity of the crisis and its impact on the global economy.

## Current risk environment

The current risk environment is marked by the global COVID-19 pandemic and the related social, political and economic uncertainties. For 2020, the International Monetary Fund projects the greatest recession of the global economy since the Great Depression about 100 years ago. Global economic output is expected to contract by 4.9 percent this year.

With the newly founded Hygiene Austria LP GmbH, which produces protective masks, Lenzing makes an important contribution to containing the pandemic together with Palmers Textil AG.

## Lenzing risk outlook 2020

The impact of the COVID-19 crisis on the business of the Lenzing Group can still not be reliably estimated. The globally persisting low prices for standard viscose, coupled with a significant decline in demand for textile fibers as a result of COVID-19, represent a high potential risk for the operating result. The significant price gap compared with other fiber types also has an impact on the specialty fiber segment. The sCore TEN strategy aims to mitigate the impact of these developments.

Based on the steady expansion of the Group's existing pulp capacity and sufficient available supplies on the global market, pulp supplies are secured for the fiber plants. Lenzing is currently expanding is pulp volume through the construction of a new plant in Brazil with an annual capacity of 500,000 tons, thus securing raw material supplies in the long term.

Prices for key raw materials, in particular for caustic soda, sulfur oxide and sulfur, showed a downward trend in the first half of 2020. On the currency side, the US dollar fluctuated within a range of 7 percent against the euro and the Chinese yuan within a range of 6.5 percent against the euro. A devaluation of the two currencies would have a negative effect on the Lenzing Group's open currency volume. Liquidity risk is expected to be low in 2020 due to the very stable financial structure.

There have been no significant damage incidents involving operating, environmental or product liability risks with a high damage potential in the current financial year.

The implementation of the two major projects in Brazil and Thailand has so far proceeded according to plan.

# Outlook

The Lenzing Group suspended on March 24 its result forecast for 2020 as a consequence of the global COVID-19 crisis and the resulting very limited visibility; at that time, Lenzing expected the result for 2020 to be below the level of 2019.

For 2020, the International Monetary Fund currently projects the greatest recession of the global economy in the course of a century. Global economic output is expected to contract by 4.9 percent in 2020.

Whilst it remains difficult to give a precise outlook for 2020, Lenzing assumes from today's perspective that the revenue generation and operating performance of the remaining two quarters will exceed those of the second quarter.

The comparatively solid business development in the first half of the year reassures the Lenzing Group in its chosen corporate strategy sCore TEN. Lenzing will continue to implement its strategy with great discipline with a particular focus on the strategic investment projects which both will yield a significant contribution to earnings starting from 2022.

Lenzing, August 04, 2020
**Lenzing Aktiengesellschaft**

**The Management Board**

**Stefan Doboczky**
Chief Executive Officer
Chairman of the Management Board

**Thomas Obendrauf**
Chief Financial Officer
Member of the Management Board

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

**Stephan Sielaff**
Chief Technology Officer
Member of the Management Board

**Christian Skilich**
Chief Officer Pulp & Wood
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).

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

The effects of the COVID-19 pandemic on the operating activities, company performance and the related uncertainties are explained in the management report. Further explanations regarding the impact on the consolidated financial statements according to IFRS, in particular on estimates, assumptions and judgments, are provided in the notes to the consolidated financial statements (note 1).

## 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 | 01-06/2020 | 01-06/2019 |
|---|---|---|
| Earnings before interest, tax, depreciation and amortization (EBITDA) | 96.7 | 181.2 |
| / Revenue | 810.2 | 1,088.5 |
| **EBITDA margin** | **11.9%** | **16.6%** |

| EUR mn | 01-06/2020 | 01-06/2019 |
|---|---|---|
| Earnings before interest and tax (EBIT) | 17.6 | 105.6 |
| / Revenue | 810.2 | 1,088.5 |
| **EBIT margin** | **2.2%** | **9.7%** |

## 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 | | 01-06/2020 | 01-06/2019 |
|---|---|---|---|
| Net profit/loss for the period | | (14.4) | 76.8 |
| + | Amortization of intangible assets and depreciation of property, plant and equipment and right-of-use assets | 80.1 | 77.0 |
| | | | |
| +/− | Change in the fair value of biological assets | 9.2 | 0.0 |
| – | Income from the release of investment grants | (1.0) | (1.4) |
| +/− | Change in non-current provisions | (2.9) | 0.0 |
| −/+ | Income / expenses from deferred taxes | 9.1 | (7.3) |
| +/− | Change in current tax assets and liabilities | 2.7 | (0.1) |
| +/− | Non-cash profit/loss from investments accounted for using the equity method | (0.2) | 0.0 |
| −/+ | Other non-cash income / expenses | (18.7) | 18.6 |
| | Other non-cash income / expenses | (1.8) | 9.9 |
| | | | |
| **Gross cash flow** | | **63.9** | **163.6** |

## 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 | | 01-06/2020 | 01-06/2019 |
|---|---|---|---|
| Cash flow from operating activities | | (17.7) | 123.8 |
| – | Cash flow from investing activities | (267.9) | (92.1) |
| + | Acquisition of financial assets and investments accounted for using the equity method | 1.1 | 0.4 |
| – | Proceeds from the sale/repayment of financial assets and the sale of investments accounted for using the equity method | (1.2) | (3.3) |
| **Free cash flow** | | **(285.7)** | **28.8** |

## CAPEX

CAPEX shows the expenditures for intangible assets and property, plant and equipment and biological assets. 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 | | 30/06/2020 | 31/12/2019 |
|---|---|---|---|
| Cash and cash equivalents | | 588.1 | 571.5 |
| + | Liquid bills of exchange (in trade receivables) | 6.4 | 9.5 |
| **Liquid assets** | | **594.5** | **581.0** |

## 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 | | 30/06/2020 | 31/12/2019 |
|---|---|---|---|
| Inventories | | 407.6 | 395.7 |
| + | Trade receivables | 200.5 | 251.4 |
| - | Trade payables | (172.5) | (243.6) |
| **Trading working capital** | | **435.6** | **403.5** |

| EUR mn | 2020 | 2019 |
|---|---|---|
| Latest reported quarterly group revenue | 343.9 | 487.3 |
| x 4 (= annualized group revenue) | 1,375.6 | 1,949.3 |
| **Trading working capital to annualized group revenue** | **31.7%** | **20.7%** |

## 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 | | 30/06/2020 | 31/12/2019 |
|---|---|---|---|
| Equity | | 1,408.6 | 1,537.9 |
| + | Non-current government grants | 15.0 | 15.4 |
| + | Current government grants | 21.4 | 13.1 |
| - | Proportional share of deferred taxes on government grants | (9.1) | (7.1) |
| Adjusted equity | | **1,435.9** | **1,559.3** |
| / | Total assets | 3,433.5 | 3,121.1 |
| **Adjusted equity ratio** | | **41.8%** | **50.0%** |

## 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 | | 30/06/2020 | 31/12/2019 |
|---|---|---|---|
| Current financial liabilities | | 146.4 | 129.6 |
| + | Non-current financial liabilities | 1,149.4 | 852.0 |
| - | Liquid assets | (594.5) | (581.0) |
| **Net financial debt** | | **701.4** | **400.6** |

| EUR mn | | 30/06/2020 | 31/12/2019 |
|---|---|---|---|
| Net financial debt | | 701.4 | 400.6 |
| / | Adjusted equity | 1,435.9 | 1,559.3 |
| **Net gearing** | | **48.8%** | **25.7%** |

| EUR mn | | 30/06/2020 | 31/12/2019 |
|---|---|---|---|
| Net financial debt | | 701.4 | 400.6 |
| + | Provisions for severance payments and pensions[1] | 107.9 | 110.8 |
| **Net debt** | | **809.3** | **511.4** |

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

**The Lenzing Group held its ground well in this extremely difficult market environment with increased pressure on prices and volumes as a result of the COVID-19 crisis.**

# Condensed Consolidated Interim Financial Statements 2020

**for the period from January 1, 2020 to June 30, 2020**

# Content Notes 2020

# Consolidated Income Statement

**for the period from January 1 to June 30, 2020**

EUR mn

| | Note | 04-06/2020 | 04-06/2019 | 01-06/2020 | 01-06/2019 |
|---|---|---|---|---|---|
| Revenue | (3) | 343.9 | 528.5 | 810.2 | 1,088.5 |
| Change in inventories of finished goods and work in progress | | (7.1) | 22.2 | 7.7 | 16.7 |
| Own work capitalized | | 14.0 | 13.2 | 31.4 | 23.4 |
| Other operating income | | 12.7 | 22.3 | 28.6 | 47.3 |
| Gains or losses from the fair value measurement of biological assets[1] | (4) | (5.8) | 0.0 | (9.2) | 0.0 |
| Cost of material and other purchased services | | (191.6) | (325.2) | (466.7) | (659.9) |
| Personnel expenses | | (87.9) | (100.2) | (184.6) | (200.7) |
| Other operating expenses | | (51.2) | (71.7) | (120.7) | (133.9) |
| **Earnings before interest, tax, depreciation and amortization (EBITDA)[2]** | | **27.1** | **89.2** | **96.7** | **181.2** |
| Amortization of intangible assets and depreciation of property, plant and equipment and right-of-use assets | | (40.3) | (38.7) | (80.1) | (77.0) |
| Income from the release of investment grants | | 0.5 | 0.7 | 1.0 | 1.4 |
| **Earnings before interest and tax (EBIT)[2]** | | **(12.8)** | **51.2** | **17.6** | **105.6** |
| Income from investments accounted for using the equity method | | 0.2 | 0.0 | 1.0 | 0.0 |
| Income from non-current and current financial assets | | (3.9) | (0.9) | (1.0) | 2.4 |
| Financing costs | | (2.6) | (1.2) | (8.0) | (5.4) |
| **Financial result** | | **(6.3)** | **(2.2)** | **(8.0)** | **(3.0)** |
| Allocation of profit or loss to and measurement result of puttable non-controlling interests | | 0.0 | 0.0 | 0.0 | 0.0 |
| **Earnings before tax (EBT)[2]** | | **(19.1)** | **49.0** | **9.5** | **102.6** |
| Income tax expense | (4) | (13.0) | (15.0) | (24.0) | (25.8) |
| **Net profit/loss for the period** | | **(32.1)** | **34.0** | **(14.4)** | **76.8** |
| Net profit/loss for the period attributable to shareholders of Lenzing AG | | (20.7) | 35.0 | 1.5 | 78.8 |
| Attributable to non-controlling interests | | (11.5) | (1.0) | (15.9) | (2.0) |
| **Earnings per share** | | EUR | EUR | EUR | EUR |
| Diluted = basic | | (0.78) | 1.32 | 0.06 | 2.97 |

1) In January 2020 there was an addition of biological assets in the amount of EUR 103.1 mn. The biological assets consist of standing wood, which is used as raw material in the pulp production. According to IAS 41 (Agriculture) biological assets are measured at fair value less costs to sell in the consolidated statement of financial position.
2) EBITDA: Operating result before depreciation and amortization, resp. earnings before interest, tax, depreciation on property, plant and equipment and right-of-use assets and amortization of intangible assets and before income from the release of investment grants.
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, 2020**

| | | | | EUR mn |
|---|---|---|---|---|
| | 04-06/2020 | 04-06/2019 | 01-06/2020 | 01-06/2019 |
| Net profit/loss for the period as per consolidated income statement | (32.1) | 34.0 | (14.4) | 76.8 |
| Items that will not be reclassified subsequently to profit or loss | | | | |
| Remeasurement of defined benefit liability | (4.7) | (6.7) | 0.0 | (6.7) |
| Financial assets measured at fair value through other comprehensive income (equity instruments) - net fair value gain/loss on remeasurement recognized during the year | 0.1 | 0.2 | (1.0) | 1.1 |
| Income tax relating to these components of other comprehensive income | 1.2 | 1.6 | 0.2 | 1.4 |
| | (3.5) | (4.9) | (0.7) | (4.2) |
| Items that may be reclassified to profit or loss | | | | |
| Foreign operations – foreign currency translation differences arising during the year | (26.6) | (7.5) | (43.7) | 7.7 |
| 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 |
| Financial assets measured at fair value through other comprehensive income (debt instruments) - reclassification of amounts relating to financial assets disposed during the year | 0.0 | 0.0 | 0.0 | (0.1) |
| Cash flow hedges – effective portion of changes in fair value recognized during the year and non-designated components | (7.2) | 5.6 | (149.5) | (5.9) |
| Cash flow hedges – reclassification to profit or loss | 0.5 | 5.5 | 4.0 | 11.0 |
| Income tax relating to these components of other comprehensive income | (3.1) | (2.3) | 6.5 | (1.1) |
| Investments accounted for using the equity method - share of other comprehensive income (net of tax) | (1.1) | 0.0 | (5.8) | 0.2 |
| | (37.5) | 1.3 | (188.5) | 11.7 |
| Other comprehensive income (net of tax) | (41.1) | (3.6) | (189.3) | 7.6 |
| Total comprehensive income | (73.2) | 30.4 | (203.7) | 84.3 |
| Total comprehensive income attributable to shareholders of Lenzing AG | (46.1) | 31.8 | (127.2) | 86.1 |
| Attributable to non-controlling interests | (27.1) | (1.4) | (76.5) | (1.8) |

# Consolidated Statement of Financial Position

**as at June 30, 2020**

EUR mn

| Assets | Note | 30/06/2020 | 31/12/2019 |
|---|---|---|---|
| Intangible assets | | 29.6 | 28.2 |
| Property, plant and equipment | | 1,770.3 | 1,597.2 |
| Biological assets[1] | (2,4) | 89.6 | 0.0 |
| Right-of-use assets | (4) | 83.8 | 37.8 |
| Investments accounted for using the equity method | | 25.3 | 29.2 |
| Financial assets | | 38.2 | 41.8 |
| Deferred tax assets | (4) | 6.7 | 7.0 |
| Current tax assets | | 18.4 | 25.6 |
| Other non-current assets | | 17.2 | 17.1 |
| **Non-current assets** | | **2,079.0** | **1,783.9** |
| Inventories | (4) | 407.6 | 395.7 |
| Trade receivables | (4) | 200.5 | 251.4 |
| Current tax assets | | 0.1 | 1.2 |
| Other current assets | | 158.2 | 117.4 |
| Cash and cash equivalents | | 588.1 | 571.5 |
| **Current assets** | | **1,354.5** | **1,337.2** |
| **Total assets** | | **3,433.5** | **3,121.1** |

| Equity and liabilities | Note | 30/06/2020 | 31/12/2019 |
|---|---|---|---|
| Share capital | | 27.6 | 27.6 |
| Capital reserves | | 133.9 | 133.9 |
| Other reserves | | (101.3) | 28.7 |
| Retained earnings | | 1,261.5 | 1,322.9 |
| **Equity attributable to shareholders of Lenzing AG** | | **1,321.7** | **1,513.0** |
| Non-controlling interests | | 86.9 | 24.9 |
| **Equity** | (4) | **1,408.6** | **1,537.9** |
| Financial liabilities | (6) | 1,149.4 | 852.0 |
| Government grants | | 15.0 | 15.4 |
| Deferred tax liabilities | (4) | 43.5 | 41.9 |
| Provisions | | 125.2 | 128.8 |
| Puttable non-controlling interests | (2,4) | 65.0 | 0.0 |
| Other liabilities | | 49.5 | 5.0 |
| **Non-current liabilities** | | **1,447.6** | **1,043.0** |
| Financial liabilities | (6) | 146.4 | 129.6 |
| Trade payables | (4) | 172.5 | 243.6 |
| Government grants | | 21.4 | 13.1 |
| Current tax liabilities | | 14.9 | 20.7 |
| Provisions | | 92.9 | 87.4 |
| Other liabilities | | 129.1 | 45.7 |
| **Current liabilities** | | **577.3** | **540.2** |
| **Total equity and liabilities** | | **3,433.5** | **3,121.1** |

1) In January 2020 there was an addition of biological assets in the amount of EUR 103.1 mn. The biological assets consist of standing wood, which is used as raw material in the pulp production. According to IAS 41 (Agriculture) biological assets are measured at fair value less costs to sell in the consolidated statement of financial position.

# Consolidated Statement of Changes in Equity

**for the period from January 1 to June 30, 2020**

EUR mn

| | Share capital | Capital reserves | Other reserves: Foreign currency translation reserve | Other reserves: Financial assets measured at fair value through other comprehensive income | Other reserves: Hedging reserve and non-designated components | Other reserves: Actuarial gains/losses | Retained earnings | Equity attributable to shareholders of Lenzing AG | Non-controlling interests | Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| As at 01/01/2019 | 27.6 | 133.9 | 43.0 | 9.3 | (5.2) | (39.7) | 1,332.8 | 1,501.7 | 32.2 | 1,533.9 |
| Net profit/loss for the period as per consolidated income statement | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 78.8 | 78.8 | (2.0) | 76.8 |
| Other comprehensive income (net of tax) | 0.0 | 0.0 | 7.7 | 0.8 | 3.9 | (5.0) | 0.0 | 7.4 | 0.2 | 7.6 |
| Total comprehensive income | 0.0 | 0.0 | 7.7 | 0.8 | 3.9 | (5.0) | 78.8 | 86.1 | (1.8) | 84.3 |
| 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 paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (132.8) | (132.8) | (0.1) | (132.9) |
| As at 30/06/2019 | 27.6 | 133.9 | 50.7 | 10.0 | (1.2) | (44.7) | 1,278.8 | 1,455.1 | 30.3 | 1,485.4 |
| As at 01/01/2020 | 27.6 | 133.9 | 61.2 | 10.7 | 3.8 | (47.0) | 1,322.9 | 1,513.0 | 24.9 | 1,537.9 |
| Net profit/loss for the period as per consolidated income statement | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.5 | 1.5 | (15.9) | (14.4) |
| Other comprehensive income (net of tax) | 0.0 | 0.0 | (47.7) | (0.8) | (80.3) | 0.0 | 0.0 | (128.7) | (60.6) | (189.3) |
| Total comprehensive income | 0.0 | 0.0 | (47.7) | (0.8) | (80.3) | 0.0 | 1.5 | (127.2) | (76.5) | (203.7) |
| Hedging gains and losses and costs of hedging transferred to the cost of property, plant and equipment and cost of inventory | 0.0 | 0.0 | 0.0 | 0.0 | (1.2) | 0.0 | 0.0 | (1.2) | 0.0 | (1.2) |
| Acquisition/disposal of non-controlling interests and other changes in the scope of consolidation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.1 | 2.1 | 100.2 | 102.3 |
| Increase in capital | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 38.5 | 38.5 |
| Measurement of puttable non-controlling interest recognized directly in equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (65.0) | (65.0) | 0.0 | (65.0) |
| Dividends paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.2) | (0.2) |
| As at 30/06/2020 | 27.6 | 133.9 | 13.5 | 9.9 | (77.7) | (47.0) | 1,261.5 | 1,321.7 | 86.9 | 1,408.6 |

# Consolidated Statement of Cash Flows (condensed)

**for the period from January 1 to June 30, 2020**

EUR mn

| | | Note | 01-06/2020 | 01-06/2019 |
|---|---|---|---|---|
| Net profit/loss for the period | | | (14.4) | 76.8 |
| + | Amortization of intangible assets and depreciation of property, plant and equipment and right-of-use assets | | 80.1 | 77.0 |
| −/+ | Other non-cash income / expenses | | (1.8) | 9.9 |
| **Gross cash flow** | | | **63.9** | **163.6** |
| +/− | Change in inventories | | (2.8) | (8.6) |
| +/− | Change in receivables | | 6.1 | (7.8) |
| +/− | Change in liabilities | | (84.9) | (23.5) |
| **Change in working capital** | | | **(81.6)** | **(39.9)** |
| **Cash flow from operating activities** | | | **(17.7)** | **123.8** |
| − | Acquisition of intangible assets, property, plant and equipment and biological assets (CAPEX) | (4) | (268.7) | (95.1) |
| − | Acquisition of financial assets and investments accounted for using the equity method | | (1.1) | (0.4) |
| + | Proceeds from the sale of intangible assets, property, plant and equipment | | 0.7 | 0.1 |
| + | Proceeds from the sale/repayment of financial assets and the sale of investments accounted for using the equity method | | 1.2 | 3.3 |
| **Cash flow from investing activities** | | | **(267.9)** | **(92.1)** |
| + | Capital increase | | 35.4 | 0.0 |
| − | Dividends paid | | (0.2) | (132.9) |
| + | Investment grants | | 0.6 | 0.0 |
| + | Increase of bonds and private placements | (6) | 83.8 | 0.0 |
| + | Increase in other financial liabilities | (6) | 267.2 | 132.5 |
| − | Repayment of bonds and private placements | | (37.5) | 0.0 |
| − | Repayment of other financial liabilities | | (39.5) | (82.2) |
| **Cash flow from financing activities** | | | **309.7** | **(82.6)** |
| **Total change in liquid funds** | | | **24.1** | **(50.9)** |
| Liquid funds at the beginning of the year | | | 571.5 | 243.9 |
| Currency translation adjustment relating to liquid funds | | | (7.5) | 2.0 |
| **Liquid funds at the end of the period** | | | **588.1** | **194.9** |
| Additional information on payments in the cash flow from operating activities: | | | | |
| Interest payments received | | | 1.2 | 0.9 |
| Interest payments made | | | 7.0 | 3.5 |
| Income taxes paid | | | 12.7 | 32.7 |

# Notes to the Consolidated Financial Statements: Selected Notes

**on the condensed consolidated interim financial statements as at June 30, 2020**

# 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, 2020 is the B&C Group, which directly or indirectly holds an investment of 50 percent plus two shares (December 31, 2019: 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.

### Basis of reporting

The condensed consolidated interim financial statements for the period from January 1 to June 30, 2020 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, 2020 are based on the consolidated financial statements as at December 31, 2019 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 2019 financial year.

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.

### Effects of the COVID-19 crisis on the half-year result

The COVID-19 crisis had a significant impact on the business development in the first half of 2020. The Lenzing Group recorded a significant drop in revenue during this period, in particular in the Segment Fibers, which was primarily due to declining sales volumes and lower selling prices. This was offset by a decrease in cost of material and other purchased services due to lower production volumes and declining market prices for raw materials (in particular pulp, caustic soda and energy) and personnel costs as short-time work was implemented at the Austrian locations. In addition government grants of EUR 6.5 mn which resulted from COVID-19 measures, in particular grants for short-time work, were recognized through profit or loss in the reporting period. Income tax expense of EUR 24.0 mn (01-06 2019: EUR 25.8 mn) is disproportionally high in relation to EBT of EUR 9.5 mn. This is primarily due to impairment of deferred tax assets recognized on loss carryforwards of individual group companies and to effects from different functional currencies.

Additional information on the effects of the COVID-19 crisis and the measures taken by the Lenzing Group are provided in the interim management report in the section The Development of Business in the Lenzing Group.

### 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, 2019 (Note 1). Additionally, the following forward-looking assumptions and other main sources of estimation uncertainty existing on June 30, 2020 can have a significant effect on the consolidated financial statements of the Lenzing Group:

- Biological assets (see note 4, section Biological assets): calculation of fair value less costs to sell.
- Puttable non-controlling interests (see note 6 Disclosures on financial instruments): Calculation of fair value less costs to sell

## Effects of the COVID-19 crisis on estimation uncertainty and judgments

The COVID-19 crisis has effects on the consolidated financial statements according to IFRS, in particular on estimates, assumptions and judgments. As the global consequences of the COVID-19 crisis are currently not foreseeable, these assumptions, estimates and judgments are subject to increased uncertainty. Assumptions, estimates and judgments were used in the interim consolidated financial statements as at June 30, 2020, primarily in the following areas:

- The COVID-19 crisis gave rise to evidence of impairment; consequently, impairment tests had to be conducted, in particular for cash-generating units with and without goodwill (see note 4, section Impairment tests).
- The assessment of capitalization and impairment of development expenses did not result in any material changes compared to the previous estimates (see note 4, section Intangible assets, property, plant and equipment and right-of-use assets).
- For hedge accounting, the estimate regarding the extent to which expected transactions can still be assumed to take place with high probability was updated. This did not result in any significant changes as at June 30, 2020 (see note 6, Disclosures on financial instruments).
- The COVID-19 crisis can lead to an increase in credit losses due to a deterioration of the credit risk of the contractual parties. The deterioration of credit risk was taken into account in the calculation models for expected credit losses as at June 30, 2020, but the amount was immaterial.
- The COVID-19 crisis caused short-term fluctuations and declines of selling and procurement prices. This has an impact on the determination of the net realizable value of inventories as well as the measurement of provisions for anticipated losses from pending procurement contracts (see note 4, section Inventories and provisions for onerous procurement contracts)
- Due to the current situation, the capitalization of deferred tax assets from temporary differences and loss carryforwards was reviewed with respect to the probability of future taxable earnings. As a result of the existing uncertainties, impairments on deferred tax assets were not recognized as at June 30, 2020 only to the extent that corresponding taxable temporary differences exist (see note 4, section Deferred taxes).

## Mandatory changes in accounting policies

The accounting standards requiring application by the Lenzing Group as of January 1, 2020 have no material effect on the presentation of the financial position and financial performance of the Lenzing Group as at June 30, 2020:

| Standards/interpretations | | Publication by the IASB | Mandatory application according to IASB for financial years from | Adopted by the EU as at 30/06/2020 |
|---|---|---|---|---|
| Conceptual Framework | Updated References to the Conceptual Framework | 29/03/2018 | 01/01/2020 | yes |
| IFRS 3 | Business Combinations: Definition of a Business | 22/10/2018 | 01/01/2020 | yes |
| IAS 1, IAS 8 | Amendments in Definition of Material | 07/02/2018 | 01/01/2020 | yes |
| IFRS 9, IAS 39, IFRS 7 | Interest Rate Benchmark Reform | 12/10/2017 | 01/01/2020 | yes |
| IFRS 16 | Amendment to IFRS 16 Leases: Covid 19-Related Rent Concessions | 28/05/2020 | 01/06/2020 | no |

# Note 2. Consolidation

## Scope of consolidation

In January 2020, the Duratex Group acquired a 49 percent share in LD Celulose S.A., Sao Paolo, Brazil as agreed. Lenzing AG still holds a majority of 51 percent and thus continues to exercise control over LD Celulose S.A. The change in shareholdings was the result of an asymmetric capital increase, which was conducted by both parties. The pro-rata equity (49 percent) of LD Celulose S.A. amounted to EUR 100.2 mn at the time the Duratex Group acquired the shares and corresponds to the amount recognized under non-controlling interests. The proportionate contribution by Duratex amounted to EUR 102.3 mn. The difference of EUR 2.1 mn was recognized directly in equity under retained earnings. As part of the capital increase, the Duratex Group contributed biological assets and property, plant and equipment (see note 4 section Biological assets) to LD Celulose and carried out further cash capital increases.

In addition, the Duratex Group has a put option for its shares (puttable non-controlling interests), which was recognized in the amount of EUR 89.4 mn in the course of the change in shareholdings. Lenzing AG uses the present access method for the accountings of these puttable non-controlling interests. Accordingly, the shares of the Duratex Group in LD Celulose S.A. continue to be recognized in equity and a financial liability is recorded for the puttable interest (see also note 6 – puttable non-controlling interests). The liability is measured at fair value (through other comprehensive income) via retained earnings.

In February 2020, the 25 percent share held in the associate WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H., Vienna was sold and deconsolidated

In April 2020, the joint venture Hygiene Austria LP GmbH, Wiener Neudorf, Austria was founded for the production of protective masks and consolidated at-equity.

## Basis of consolidation

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

| Exchange rates for key currencies | | | 2020 | | 2019 | |
|---|---|---|---|---|---|---|
| Unit | Currency | | Reporting date 30/06 | Average 01-06 | Reporting date 31/12 | Average 01-06 |
| 1 EUR | USD | US Dollar | 1.1284 | 1.1015 | 1.1189 | 1.1298 |
| 1 EUR | GBP | British Pound | 0.9154 | 0.8743 | 0.8521 | 0.8736 |
| 1 EUR | CZK | Czech Koruna | 26.8480 | 26.3423 | 25.4630 | 25.6837 |
| 1 EUR | CNY | Renminbi Yuan | 7.9841 | 7.7481 | 7.8175 | 7.6670 |
| 1 EUR | BRL | Brazilian Real | 6.1105 | 5.4169 | 4.5128 | 4.3407 |

# 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, 2019.

**Information on business segments** — EUR mn

| 01-06/2020 and 30/06/2020 | Fibers | Lenzing Technik | Other | Segment total | Reconciliation | Group |
|---|---|---|---|---|---|---|
| Revenue from external customers | 803.4 | 5.9 | 0.9 | **810.2** | 0.0 | **810.2** |
| Inter-segment revenue | 1.4 | 8.4 | 1.3 | **11.1** | (11.1) | **0.0** |
| **Total revenue** | **804.9** | **14.2** | **2.2** | **821.3** | **(11.1)** | **810.2** |
| EBITDA (segment result) | 95.4 | 1.2 | 0.6 | **97.1** | (0.4) | **96.7** |
| EBIT | 15.6 | 0.6 | 0.5 | **16.7** | 0.9 | **17.6** |
| EBITDA margin[1] | 11.9% | 8.1% | 24.9% | **11.8%** | | **11.9%** |
| EBIT margin[2] | 1.9% | 4.3% | 22.1% | **2.0%** | | **2.2%** |
| Segment assets | 2,776.8 | 22.2 | 5.2 | **2,804.3** | 629.2 | **3,433.5** |
| Segment liabilities | 659.1 | 11.4 | 2.6 | **673.1** | 1,351.8 | **2,024.9** |

**Information on business segments (previous year)** — EUR mn

| 01-06/2019 and 31/12/2019 | Fibers | Lenzing Technik | Other | Segment total | Reconciliation | Group |
|---|---|---|---|---|---|---|
| Revenue from external customers | 1,082.3 | 5.0 | 1.2 | **1,088.5** | 0.0 | **1,088.5** |
| Inter-segment revenue | 1.9 | 7.8 | 1.7 | **11.4** | (11.4) | **(0.0)** |
| **Total revenue** | **1,084.2** | **12.8** | **2.9** | **1,099.9** | **(11.4)** | **1,088.5** |
| EBITDA (segment result) | 180.4 | 0.8 | 0.6 | **181.8** | (0.5) | **181.2** |
| EBIT | 103.8 | 0.3 | 0.5 | **104.6** | 1.0 | **105.6** |
| EBITDA margin[1] | 16.6% | 6.3% | 19.3% | **16.5%** | | **16.6%** |
| EBIT margin[2] | 9.6% | 2.5% | 17.7% | **9.5%** | | **9.7%** |
| Segment assets | 2,473.0 | 19.4 | 3.6 | **2,496.0** | 625.0 | **3,121.1** |
| Segment liabilities | 529.8 | 10.3 | 2.6 | **542.8** | 1,040.4 | **1,583.2** |

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

| | 01-06/2020 | 01-06/2019 |
|---|---|---|
| Segment result (EBITDA) | 97.1 | 181.8 |
| Consolidation | (0.4) | (0.5) |
| **Group result (EBITDA)** | **96.7** | **181.2** |
| Segment amortization of intangible assets and depreciation of property, plant and equipment | (81.4) | (78.5) |
| Consolidation | 1.3 | 1.5 |
| Income from the release of investment grants | 1.0 | 1.4 |
| **Earnings before interest and tax (EBIT)** | **17.6** | **105.6** |
| Financial result | (8.0) | (3.0) |
| Allocation of profit or loss to and measurement result of puttable non-controlling interests | 0.0 | 0.0 |
| **Earnings before tax (EBT)** | **9.5** | **102.6** |

The consolidated income statement shows the reconciliation of earnings before tax (EBT) to net profit/loss 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

| | 01-06/2020 | 01-06/2019 |
|---|---|---|
| Botanic cellulose fibers | 664.7 | 908.1 |
| Sodium sulfate and black liquor | 22.6 | 28.8 |
| Pulp, wood, energy and other | 117.6 | 147.3 |
| **Segment Fibers** | **804.9** | **1,084.2** |
| Mechanical and plant engineering and engineering services | 14.2 | 12.8 |
| **Segment Lenzing Technik** | **14.2** | **12.8** |
| Other and consolidation | (8.9) | (8.5) |
| **Revenue as per consolidated income statement** | **810.2** | **1,088.5** |

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

## 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

| | 01-06/2020 | 01-06/2019 |
|---|---|---|
| Austria | 26.1 | 32.0 |
| Europe (excl. Austria, incl. Turkey) | 250.5 | 308.5 |
| Asia | 439.4 | 651.8 |
| America | 84.4 | 82.6 |
| Rest of the world | 4.6 | 9.3 |
| **Segment Fibers** | **804.9** | **1,084.2** |
| Austria | 7.2 | 6.6 |
| Europe (excl. Austria, incl. Turkey) | 1.7 | 2.5 |
| Asia | 3.9 | 1.9 |
| America | 1.0 | 1.7 |
| Rest of the world | 0.4 | 0.0 |
| **Segment Lenzing Technik** | **14.2** | **12.8** |
| Other and consolidation | (8.9) | (8.5) |
| **Revenue as per consolidated income statement** | **810.2** | **1,088.5** |

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, 2020.

# Notes on the Primary Financial Statements and on Risk Management

## Note 4. Notes on the primary financial statements

### Intangible assets and property, plant and equipment and right-of-use assets

Internally generated intangible assets (mainly process and product developments) of EUR 3.2 mn were capitalized in the first half of 2020 (01-06/2019: EUR 0.4 mn).

The increase in investments (CAPEX) results mainly from the construction of the lyocell plant in Thailand and the construction of the dissolving wood pulp plant in Brazil.

In the first half 2020 right-of-use assets of EUR 41.3 mn were recognized for the land on which the biological assets are located.

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

Against the backdrop of the COVID-19 crisis, the Lenzing Group reviewed all assumptions that are crucial to the impairment tests in accordance with the methods previously used. For the cash-generating units (CGUs), the budgets required for the cash flow forecasts for 2020 were reviewed and medium-term planning, in particular for 2021, was adapted. The changed situation in the capital markets resulting from the COVID-19 crisis was considered in the WACC. After-tax WACCs (weighted average cost of capital) ranging from 5.4 percent to 7.9 percent were used for impairment tests of CGUs carrying goodwill in the first half of 2020 (2019: 6.4 percent to 7.3 percent). A long-term growth rate of 0.4 percent to 1.2 percent (2019: 0.9 percent to 1.1 percent) was taken into account in perpetual yield for the other CGUs with goodwill. No impairments were identified in the results in the first half of 2020.

As part of an extended sensitivity analysis, the following changes of parameters were simulated individually for each parameter: a decrease in the planned EBITDA by 5 percent, an increase in weighted capital costs by 5 percent or a reduction of the growth rate by 0.5 percentage points in perpetual yield was assumed. On this basis, no impairment would be required for any of the cash-generating units with the exception of the CGU Fiber Site China.

For the CGU Fiber Site China, a decline in the planned EBITDA by 5 percent would result in an impairment of EUR 8,356 thousand; an increase in WACC by 5 percent would result in an impairment of EUR 7,369 thousand and a reduction of the long-term growth rate by 0.5 percentage points in perpetual yield would lead to an impairment of EUR 7,418 thousand.

The carrying amounts of the intangible assets and property, plant and equipment of the CGU Fiber Site China impaired in previous years totaled EUR 43,094 thousand at June 30, 2020 (December 31, 2019: EUR 45,387). This amount includes accumulated impairment losses of EUR 17,764 thousand (December 31, 2019: EUR 20,045 thousand) from the previous impairment tests.

The carrying amount of the largest CGU Pulp Site Czech Republic as at June 30, 2020 is EUR 154.9 mn (December 31, 2019: EUR 167.5 mn). The goodwill which is included in the intangible assets is EUR 9.8 mn (December 31, 2019: EUR 10.4 mn). The recoverable amount showed generous coverage of the carrying amounts. From the current perspective of management and based on the fair value less costs of disposal determined as at June 30, 2020, it is not likely that the valuation assumptions will change to such an extent that the carrying amount would not be covered.

## Biological assets

Biological assets comprise standing trees of a plantation, which are used as a raw material for pulp production. In accordance with IAS 41 (Agriculture), biological assets are presented at fair value in the consolidated statement of financial position. The plantation is recognized at level 3 of the fair value less estimated costs to sell at the harvest. It is assumed that fair values can be measured. The measurement is based on a discounted cash flow model on the basis of sustainable forest management plans, industry benchmarks for wood prices and delivery costs and taking into account the growth potential. The annual harvest from the projected tree growth is multiplied by wood prices, and the forestry and harvesting costs are deducted. The fair value of the plantation is measured as the present value of the harvest from one growth cycle on the basis of the productive forest area, taking into account environmental restrictions and other reservations. Young standing timber less than one year old is considered an immature asset and is recognized at cost. When harvested, biological assets are transferred to the item inventories of the consolidated statement of financial position. Changes in the fair value of hedging instruments in relation to the foreign exchange risk are recognized in the income statement under gains and losses from the change in the fair value of biological assets.

The plantation was an addition of EUR 103.1 mn in January 2020. As at June 30, 2020, it comprised approximately 39,853 hectares of eucalypt wood and 1,038 hectares of pine wood. The wood is up to 12 years old. Wood amounting to EUR 2.2 mn is less than one year old and therefore considered an immature asset.

Biological assets developed as follows:

**Reconciliation of biological assets** EUR mn

| | 2020 |
|---|---|
| As at 01/01 | 0.0 |
| Addition | 103.1 |
| Sales | (1.9) |
| Capitalized production costs | 4.7 |
| Change in the fair value | (14.5) |
| Foreign currency translation reserve | (1.9) |
| Other changes | 0.0 |
| **As at 30/06** | **89.6** |

Gains and losses from the change in fair value of biological assets of EUR minus 9.2 mn are related to the regular remeasurement.

The following individual assumptions were used as at June 30, 2020:

**Assumptions of level 3 input factors for biological assets**

| | 30/06/2020 |
|---|---|
| Market price EUR/m³ | 8.01 |
| Discount rate | 7.14% |
| Wood volume | 10,819,750 m³ |

The following table shows a sensitivity analysis with hypothetical scenarios for the key assumptions as well as the possible changes in value at the reporting date if they occur.

**Sensitivity analysis of level 3 input factors for biological assets as at 30/06/2020** EUR mn

| | Increase | Decrease |
|---|---|---|
| Change in the market price (+/- 1%) | 0.9 | (0.9) |
| Discount rate (+/- 1%) | (0.1) | 0.1 |
| Wood volume (+/- 5%) | 4.7 | (4.7) |

## Investments accounted for using the equity method

In the first half of 2020, the carrying amount of the investment in EQUI-Fibres Beteiligungsgesellschaft mbH (EFB) and the outstanding purchase price receivables and non-current loans due from the buyer of EFB (and its subsidiaries) were tested for impairment due to the credit default risk assessment. In the first half of 2020 an impairment loss of EUR 1.4 mn was recognized on the non-current loans due from the buyer of EFB. In the 2019 financial year, an impairment loss of EUR 3.4 mn was recognized on the carrying amount of the investment in EFB.

## Inventories and provisions for onerous procurement contracts

In the interim reporting period write-ups to net realizable value in the amount of EUR 15.0 mn (1-6/2019: EUR 19.7 mn write-downs) were recognized in profit or loss. In addition, provisions for onerous procurement contracts for raw materials of EUR 4.9 mn were recognized (1-6/2019: EUR 0.0 mn).

## Equity

The share capital and the number of zero par value shares did not change in the interim reporting period. No shares were repurchased. The Management Board did not utilize the authorizations in place on or up to June 30, 2020 to increase share capital, issue convertible bonds or repurchase treasury shares during the interim reporting period.

The Annual General Meeting on June 18, 2020 authorized the Management Board again to purchase treasury shares for a maximum period of 30 months starting on the day of the resolution, subject to the approval of the Supervisory Board, up to a volume of 10 percent of the company's share capital. The same terms and conditions apply as for the resolution adopted by the Annual General Meeting on April 12, 2018 regarding the acquisition of treasury shares, which was revoked with the above resolution.

The Management Board was also authorized (while the resolution regarding this matter of the Annual General Meeting of April 12, 2018 was canceled at the same time), for a period of five years starting on the day of the resolution, to adopt the sale of treasury shares in any manner permitted by law other than through the stock exchange or public offer, also excluding shareholders' repurchasing rights (subscription rights), and to determine the conditions of sale.

The 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 2019 resolved at the Annual Shareholders' Meeting on June 18, 2020[1] | 0.0 | 26,550,000 | 0.00 |
| Dividend for the financial year 2018 resolved at the Annual Shareholders' Meeting on April 17, 2019 (payment as of April 25, 2019) | 132.8 | 26,550,000 | 5.00 |

The proposed dividend payout of EUR 1.00 as published in the consolidated financial statements 2019 was reevaluated due to the COVID-19 crisis.

## Deferred taxes

Income tax expense for the condensed interim consolidated financial statements is determined based on the best estimate of the average annual income tax rate expected for the full financial year in accordance with IAS 34. In addition, one-off effects which relate to the reporting date as at June 30, 2020 are taken into account, in particular estimates regarding the impairment of loss carryforwards as well as temporary differences arising due to market measurements as of the reporting date.

## Trade payables

Reverse factoring agreements with suppliers of the Lenzing Group are in place as at June 30, 2020. Trade payables totaling EUR 75.4 mn (December 31, 2019: EUR 100.6 mn) were affected by these agreements.

# Note 5. Capital risk management

All capital requirements were satisfied in the interim reporting period. Unused credit facilities in the amount of EUR 157.9 mn were available for possible future financing requirements as at June 30, 2020 (December 31, 2019: EUR 266.6 mn). Regarding the financing of the construction of the pulp plant in Brazil, see note 6 Disclosures on financial instruments.

# 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 (Financial Instruments) 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. This "no financial instrument" column contains lease liabilities since they represent other financial liabilities which cannot be allocated to any IFRS 9 measurement category.

## Carrying amounts, category, fair value and fair value hierarchy of financial instruments

EUR mn

| Financial assets as at 30/06/2020 | Carrying amount: At amortized cost | At fair value through profit or loss | At fair value through other comprehensive income: Debt instruments | At fair value through other comprehensive income: Equity instruments | At fair value through other comprehensive income: Cashflow Hedges | No financial instrument | Total | Fair value: Fair value | Fair value hierarchy |
|---|---|---|---|---|---|---|---|---|---|
| Originated loans | 10.8 | | | | | | **10.8** | 10.8 | [1] |
| Non-current securities | | 0.7 | 3.8 | 11.7 | | | **16.2** | 16.2 | Level 1 |
| Other equity investments | | | | 11.2 | | | **11.2** | 11.2 | Level 3 |
| **Financial assets** | **10.8** | **0.7** | **3.8** | **22.9** | **0.0** | **0.0** | **38.2** | **38.2** | |
| **Trade receivables** | **200.5** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **200.5** | **200.5** | [1] |
| Derivatives with a positive fair value (cash flow hedges) | | | | | 4.8 | | **4.8** | 4.8 | Level 2 |
| Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss) | | 2.4 | | | | | **2.4** | 2.4 | Level 2 |
| Other | 18.3 | 4.1 | | | | 145.9 | **168.3** | 168.3 | Level 3 |
| **Other assets (current and non-current)** | **18.3** | **6.5** | **0.0** | **0.0** | **4.8** | **145.9** | **175.5** | **175.5** | |
| **Cash and cash equivalents** | **588.1** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **588.1** | **588.1** | [1] |
| **Total** | **817.6** | **7.2** | **3.8** | **22.9** | **4.8** | **145.9** | **1,002.2** | **1,002.2** | |

| Financial liabilities as at 30/06/2020 | Carrying amount: At amortized cost | At fair value through profit or loss | At fair value through other comprehensive income: Cash flow hedges/Fair value hedges | At fair value through other comprehensive income: Retained earnings | No financial instrument | Total | Fair value: Fair value | Fair value hierarchy |
|---|---|---|---|---|---|---|---|---|
| Private placements | 645.7 | | | | | **645.7** | 656.9 | Level 3 |
| Liabilities to banks | 527.2 | | | | | **527.2** | 534.5 | Level 3 |
| Liabilities to other lenders | 46.3 | | | | | **46.3** | 46.5 | Level 3 |
| Lease liabilities | | | | | 76.5 | **76.5** | 76.5 | [1] |
| **Financial liabilities** | **1,219.3** | **0.0** | **0.0** | **0.0** | **76.5** | **1,295.8** | **1,314.3** | |
| **Trade payables** | **172.5** | **0.0** | **0.0** | **0.0** | **0.0** | **172.5** | **172.5** | [1] |
| **Provisions (current)** | **31.9** | **0.0** | **0.0** | **0.0** | **61.0** | **92.9** | **92.9** | [1] |
| **Puttable non-controlling interests** | **0.0** | **0.0** | **0.0** | **65.0** | **0.0** | **65.0** | **65.0** | **Level 3** |
| Derivatives with a negative fair value (cash flow hedges) | | | 137.7 | | | **137.7** | 137.7 | Level 2 |
| Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss) | | 0.9 | | | | **0.9** | 0.9 | Level 2 |
| Derivatives with a negative fair value (fair value hedges) | | | 2.0 | | | **2.0** | 2.0 | Level 3 |
| Other | 4.9 | | | | 33.1 | **38.0** | 38.0 | [1] |
| **Other liabilities (current and non-current)** | **4.9** | **0.9** | **139.7** | **0.0** | **33.1** | **178.7** | **178.7** | |
| **Total** | **1,428.6** | **0.9** | **139.7** | **65.0** | **170.6** | **1,804.9** | **1,823.5** | |

1) The carrying amount approximates fair value.

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

| Financial assets as at 31/12/2019 | Carrying amount: At amortized cost | At fair value through profit or loss | At fair value through other comprehensive income: Debt instruments | At fair value through other comprehensive income: Equity instruments | At fair value through other comprehensive income: Cash flow hedges | No financial instrument | Total | Fair value: Fair value | Fair value hierarchy |
|---|---|---|---|---|---|---|---|---|---|
| Originated loans | 12.5 | | | | | | **12.5** | 12.5 | [1] |
| Non-current securities | | 0.8 | 3.7 | 13.4 | | | **17.9** | 17.9 | Level 1 |
| Other equity investments | | | | 11.5 | | | **11.5** | 11.5 | Level 3 |
| **Financial assets** | **12.5** | **0.8** | **3.7** | **24.9** | **0.0** | **0.0** | **41.8** | **41.8** | |
| **Trade receivables** | **251.4** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **251.4** | **251.4** | [1] |
| Derivatives with a positive fair value (cash flow hedges) | | | | | 7.2 | | **7.2** | 7.2 | Level 2 |
| Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss) | | 0.7 | | | | | **0.7** | 0.7 | Level 2 |
| Other | 16.1 | 4.1 | | | | 106.5 | **126.7** | 126.7 | Level 3 |
| **Other assets (current and non-current)** | **16.1** | **4.7** | **0.0** | **0.0** | **7.2** | **106.5** | **134.5** | **134.5** | |
| **Cash and cash equivalents** | **571.5** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **571.5** | **571.5** | [1] |
| **Total** | **851.5** | **5.5** | **3.7** | **24.9** | **7.2** | **106.5** | **999.2** | **999.2** | |

| Financial liabilities as at 31/12/2019 | Carrying amount: At amortized cost | At fair value through profit or loss | At fair value through other comprehensive income: Cash flow hedges/Fair value hedges | No financial instrument | Total | Fair value: Fair value | Fair value hierarchy |
|---|---|---|---|---|---|---|---|
| Private placements | 599.9 | | | | **599.9** | 605.8 | Level 3 |
| Liabilities to banks | 293.8 | | | | **293.8** | 298.4 | Level 3 |
| Liabilities to other lenders | 51.6 | | | | **51.6** | 51.7 | Level 3 |
| Lease liabilities | | | | 36.3 | **36.3** | 36.3 | [1] |
| **Financial liabilities** | **945.3** | **0.0** | **0.0** | **36.3** | **981.6** | **992.3** | |
| **Trade payables** | **243.6** | **0.0** | **0.0** | **0.0** | **243.6** | **243.6** | [1] |
| **Provisions (current)** | **23.4** | **0.0** | **0.0** | **64.0** | **87.4** | **87.4** | [1] |
| Derivatives with a negative fair value (cash flow hedges) | | | 1.9 | | **1.9** | 1.9 | Level 2 |
| Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss) | | 3.1 | | | **3.1** | 3.1 | Level 2 |
| Derivatives with a negative fair value (fair value hedges) | | | 3.0 | | **3.0** | 3.0 | Level 3 |
| Other | 3.3 | | | 39.4 | **42.7** | 42.7 | [1] |
| **Other liabilities (current and non-current)** | **3.3** | **3.1** | **5.0** | **39.4** | **50.7** | **50.7** | |
| **Total** | **1,215.6** | **3.1** | **5.0** | **139.7** | **1,363.3** | **1,374.0** | |

1) The carrying amount approximates fair value.

Depending on the classification/measurement category, financial instruments are subsequently measured at (amortized) cost or fair value. The Lenzing Group uses the following measurement categories: "at amortized cost", "at fair value through profit or loss" and "at fair value through other comprehensive income". The measurement category "at fair value through profit or loss" is solely used for financial assets that are mandatorily measured at fair value.

In the first half of 2020, cash flow hedges were concluded to hedge the currency risk related to the highly probably acquisition of additional shares in a subsidiary. With the recognition of the forward foreign exchange contracts, the amounts of the value changes, which were initially recognized in OCI, are reclassified to the foreign currency translation reserve. As at June 30, 2020, EUR 13.9 mn (December 31, 2019: EUR 0.0 mn) were reclassified to the foreign currency translation reserve.

The Lenzing Group accounts for reclassifications in the fair value hierarchy at the end of the reporting period in which the changes occur. There were no transfers between the levels of the fair value hierarchy for the financial instruments in the financial year.

The measurement of financial instruments is monitored and reviewed by the Lenzing Group. The necessary market data are validated based on the four-eyes principle.

In light of the varying influencing factors, the fair values presented can only be considered indicators of the values that could actually be realized on the market.

The fair value of purchased bonds is derived from the respective current market prices and fluctuates, in particular, with changes in market interest rates and the credit standing of the issuers. The fair value of shares is derived from the current stock exchange prices. These securities are assigned to the category "at fair value through other comprehensive income".

The fair value of investment funds is derived from the latest calculated value. These securities are assigned to the category "at fair value through profit or loss".

The measurement of equity investments including derivatives designated as a hedge (fair value hedge) is classified "at fair value through other comprehensive income". The fair value is determined on the basis of a market approach and is to be categorized in level 3 of the fair value hierarchy. The measurement model is based on market multiples derived from listed benchmark companies and adjusted for a discount of 25 percent for the size and marketability of the equity investments. The determined fair value of the equity investment would increase (decrease) in particular if the planned EBITDA or the market multiple increased (decreased). The determined fair value would increase (decrease) if the discount on the market multiple decreased (increased). The determined fair value of the derivative has an inverse correlation to the abovementioned parameters. The adjusted market multiples amount to roughly 6.8 and 7.2 as at June 30, 2020 (December 31, 2019: 7.1 and 8.1).

The following tables show the development of the fair values of the equity investments and the associated derivatives of level 3:

**Reconciliation of level 3 fair values of equity investments and related derivatives** — EUR mn

| 2020 | Equity investments | Derivatives with a negative fair value (fair value hedges) |
|---|---|---|
| As at 01/01 | 11.5 | (3.0) |
| 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) | 1.0 |
| **As at 30/06** | **11.2** | **(2.0)** |

**Reconciliation of level 3 fair values of equity investments and related derivatives** — EUR mn

| 2019 | Equity investments | Derivatives with a negative fair value (fair value hedges) |
|---|---|---|
| As at 01/01 | 7.2 | 0.0 |
| Financial assets measured at fair value through other comprehensive income (equity instruments) – net fair value gain/loss on remeasurement recognized during the year | 1.8 | (1.5) |
| **As at 30/06** | **9.0** | **(1.5)** |

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

**Sensitivity analysis of level 3 input factors for equity investments and related derivatives as at 30/06/2020** 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 | (0.1) | **0.6** | (0.7) | 0.1 | **(0.6)** |
| Market multiple (+/- 1) | 1.4 | (1.4) | **0.0** | (1.4) | 1.4 | **0.0** |
| Change discount to market multiple (+/- 10%) | (0.4) | 0.4 | **0.0** | 0.4 | (0.4) | **0.0** |

**Sensitivity analysis of level 3 input factors for equity investments and related derivatives as at 31/12/2019 (previous year)** 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) | **0.6** | (0.7) | 0.2 | **(0.6)** |
| Market multiple (+/- 1) | 1.4 | (1.4) | **0.0** | (1.4) | 1.4 | **0.0** |
| Change discount to market multiple (+/- 10%) | (0.5) | 0.5 | **0.0** | 0.5 | (0.5) | **0.0** |

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

Other financial assets from earn-out agreements are classified "at fair value through profit or loss". The fair value of these other financial assets is determined based on an income approach. It is to be categorized in level 3 of the fair value hierarchy. The measurement model is based on the planned EBITDA, the weighted average cost of capital (WACC) after tax and the repayment terms.

The determined fair value would increase (decrease) in particular if EBITDA increased (decreased). The determined fair value would decrease (increase) if the WACC after tax increased (decreased). The determined fair value would increase if the repayment were to be made for example two years earlier.

**Reconciliation of level 3 fair values of other financial assets** EUR mn

| | 2020 | 2019 |
|---|---|---|
| As at 01/01 | 4.1 | 2.0 |
| Gain/loss included in financial result | 0.0 | 0.0 |
| Repayment | 0.0 | 0.0 |
| **As at 30/06** | **4.1** | **2.0** |

A change in key input factors which cannot be observed on the market would have immaterial effects on other financial assets.

Bad debt provisions of EUR 1.2 mn (01-06/2019: EUR 1.5 mn) were recognized through profit or loss in the reporting period.

The Duratex Group has a put option to sell its shares if a change of control occurs regarding the owner of the Lenzing Group (change of control clause). This obligation is recognized under liabilities from puttable non-controlling interests. Puttable non-controlling interests are allocated to the category "at fair value through other comprehensive income". The fair value of these puttable non-controlling interests is determined based on the fair value less cost of disposal and net debt at the measurement date including the present value of property plant and equipment as well as of working capital. The budget approved by the Management and Supervisory Boards and the medium-term plans are the starting point for the cash flow projections. Based on the assumptions used in the previous year, a perpetual yield that includes a sustainable long-term growth rate of 0.8 percent is applied after the detailed planning period of 5 years. The estimate for the sustainable long-term growth rate equals half of the inflation rate expected during the following years, as projected by an international economic research agency. The planning period for the calculation of fair value is contractually limited to a maximum of 30 years. Cash flows are discounted to their present value with a discounted cash flow method. The applied discount rate is calculated on an individual basis using the capital asset pricing model (CAPM) and represents a composite figure (weighted average cost of capital – WACC) that combines the average interest rate for debt and the anticipated return on equity employed. An after-tax WACC of 8.8 percent was used on the measurement date. Fair value measurement is classified in full as level 3 of the fair value hierarchy because key input factors (in particular, cash flows) cannot be observed on the market.

The determined fair value would increase (decrease) if the operating margin or the growth rate increased (decreased). The determined fair value would decrease (increase) if the after-tax WACC increased (decreased).

**Reconciliation of level 3 fair values of puttable non-controlling interest** — **EUR mn**

| | **2020** |
|---|---|
| As at 01/01 | 0.0 |
| Addition due to change in interest | 89.4 |
| Measurement of puttable non-controlling interest recognized directly in equity | (24.3) |
| **As at 30/06** | **65.0** |

A change in key input factors which cannot be observed on the market would have the following effects on the measurement puttable non-controlling interests:

**Sensitivity analysis of level 3 input factors for puttable non-controlling interest as at 30/06/2020** — **EUR mn**

| | **Measurement of puttable non-controlling interest recognized directly in equity** | |
|---|---|---|
| **Puttable non-controlling interests** | **Increase** | **Decrease** |
| Operating margin (+/- 1%) | 5.2 | (5.2) |
| Discount rate (WACC) after tax (+/- 0.25%) | (17.0) | 17.7 |
| Growth rate (+/- 0.1%) | 0.1 | (0.1) |

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

The fair values of the other financial liabilities are determined in accordance with generally accepted valuation methods based on the discounted cash flow method. The most important input factor is the discount rate, which incorporates the available market data (risk-free interest rates) and the credit standing of the Lenzing Group, which is not observable on the market. The fair values of the financial guarantee contracts represent the estimated expected default arising from the maximum possible payment obligation and the expected loss.

In the 2020 financial year, the Lenzing Group issued further private placements with an issue volume of EUR 66 mn and USD 20 mn. Terms of 5 to 7 years with fixed and floating interest rates were agreed.

In 2020, a loan of EUR 200 mn was arranged with Oesterreichische Kontrollbank for the construction of the lyocell plant in Thailand. A term of 3 to 7 years with fixed and floating interest rates was agreed.

Financing of the construction of the pulp plant in Brazil was secured in the form of loans in the first half of 2020 (volume USD 1,147.0 mn). The (partial) payout of the loan amounts will be made at the request of LD Celulose S.A. and upon proving the contractually defined terms of payout. The loan agreements include, at the project company level, financial covenants which refer in particular to the ratio of net financial debt to EBITDA and may trigger an obligation to repay the financial liabilities if the covenants are not met. At the Lenzing Group level, market restrictive covenants are in place. These financial covenants are regularly monitored by the Global Treasury department and are considered in the determination of distributions by the group companies involved. Lenzing AG and the joint venture partner have committed to a fixed debt/equity ratio of the project company (63/37) and guarantee the financial liabilities of the project company in the amount of their share in the capital. Lenzing AG therefore guarantees 51 percent (due to the full consolidation, 100 percent of the project company's financial liabilities are included in the consolidated statement of financial position).

The Lenzing Group uses derivative financial instruments to hedge against risks arising from the operating business. These derivative financial instruments serve to balance the variability of cash flows from future transactions. Hedges are determined in advance on the basis of the expected purchases and sales in the relevant foreign currency. The Lenzing Group generally applies the hedge accounting rules to these derivative financial instruments. Hedge effectiveness is measured by grouping the hedged items and hedging instruments together in at least quarterly maturity ranges for each hedged risk. The retrospective hedging effect or ineffectiveness is evaluated with the dollar-offset method, which compares the periodic changes in the fair value of the hedged items with the periodic changes in the fair value of the hedges in line with the compensation method. In hedging future cash flows in foreign currencies (cash flow hedges), the Lenzing Group typically hedges the risk up to the time of the foreign currency payment.

The Lenzing Group uses derivative financial instruments to hedge cross-currency interest rate risks arising from the operating business. These derivative financial instruments serve to balance the variability between interest and principal payments on private placements in USD. Hedges are determined to hedge against the currency risk resulting from the private placements in USD and the principal and interest payments in foreign currencies as well as the interest rate risk resulting from floating rate interest payments of the hedged item. The Lenzing Group generally applies the hedge accounting rules defined by IFRS 9 to these derivative financial instruments. Hedge effectiveness is measured by grouping the hedged items and hedging instruments together in at least quarterly maturity ranges for each hedged risk. The retrospective hedging effect or ineffectiveness is evaluated with the dollar-offset method, which compares the periodic changes in the fair value of the hedged items with the periodic changes in the fair value of the hedges in line with the compensation method. As part of hedging the exchange rate risk, which results from raising and the principal and interest payments of a private placement as well as the interest rate risk ("cash flow hedges"), the Lenzing Group typically hedges the risk up to the repayment of the private placement.

Derivatives are measured at fair value. Their fair value corresponds to the applicable market value, if available, or is calculated using standard methods based on the market data available at the measurement date (in particular exchange rates and interest rates). Currency and commodity forwards are measured at the respective forward rate or price at the reporting date. These forward rates or prices are based on the spot rates or prices and include forward premiums and discounts. The Group's own models are used to estimate the measurement. The measurement of derivatives also includes the counterparty risk (credit risk/counterparty risk/non-performance risk) in the form of discounts to the fair value that would be used by a market participant for pricing.

# 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 7.5 mn to the head of the tax group in the interim reporting period (1-6/2019: EUR 14.0 mn). Moreover, the liability recognized as at December 31, 2019 for the tax allocation to the head of the tax group was essentially adjusted as at June 30, 2020 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**

| | 01-06/2020 | 01-06/2019 |
|---|---|---|
| Goods and services provided and other income | 25.1 | 32.6 |
| Goods and services received and other expenses | 0.3 | 0.3 |
| | | |
| | **30/06/2020** | **31/12/2019** |
| Receivables | 11.7 | 14.8 |
| Liabilities | 25.2 | 28.1 |

## Note 8. Executive bodies

Stephan Sielaff was appointed member of the Management Board (Chief Technology Officer/CTO) with effect from March 1, 2020. Christian Skilich was appointed member of the Management Board (Chief Officer Pulp & Wood) with effect from June 1, 2020. The principles of their remuneration system correspond to those of the other Management Board members.

Melody Harris-Jensbach was elected to the Supervisory Board at the Annual General Meeting on June 18, 2020. Felix Fremerey retired from the Supervisory Board at his own request.

Otherwise the composition of the Management Board and the Supervisory Board has not changed in comparison with December 31, 2019.

# 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 4.8 mn (December 31, 2019: EUR 6.8 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 viewpoint 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 9.8 mn (December 31, 2019: EUR 10.9 mn) to third parties. These credit lines were not in use as at June 30, 2020.

Bank guarantees of EUR 86.0 mn (December 31, 2019: EUR 295.6 mn) are in place for future equity injections of Lenzing AG for LD Celulose S.A. from 2020 to 2022. These bank guarantees were not drawn as at June 30, 2020.

The obligations from outstanding orders for intangible assets and property, plant and equipment amounted to EUR 216.6 mn as at June 30, 2020, (December 31, 2019: EUR 71.0 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

On July 23, 2020, the Lenzing Group acquired and fully consolidated 100 percent of the shares in Nanjing Fabor Waste Water Treatment Co., Ltd, China, Nanjing for a purchase price of EUR 16.1 mn.

Other than that, the Lenzing Group is not aware of any significant events occurring after the reporting date on December 31, 2019 which would have resulted in a different presentation of its financial position and financial performance.

Lenzing, August 4, 2020
**Lenzing Aktiengesellschaft**

**The Management Board**

**Stefan Doboczky**
Chief Executive Officer
Chairman of the
Management Board

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

**Thomas Obendrauf**
Chief Financial Officer
Member of the
Management Board

**Stephan Sielaff**
Chief Technology Officer
Member of the
Management Board

**Christian Skilich**
Chief Officer Pulp & Wood
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 consolidated 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 4, 2020
**Lenzing Aktiengesellschaft**

**The Management Board**

**Stefan Doboczky**
Chief Executive Officer
Chairman of the
Management Board

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

**Thomas Obendrauf**
Chief Financial Officer
Member of the
Management Board

**Stephan Sielaff**
Chief Technology Officer
Member of the
Management Board

**Christian Skilich**
Chief Officer Pulp & Wood
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 2020 to 30 June 2020. These condensed interim consolidated financial statements comprise the consolidated statement of financial position as of 30 June 2020 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 2020 to 30 June 2020 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. Our liability towards the Company and towards third parties is limited in accordance with § 275 par. 2 of the Austrian Commercial Code (UGB).

## 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 2020 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.

Linz, August 4, 2020

**KPMG Austria GmbH**

**Wirtschaftsprüfungs- und Steuerberatungsgesellschaft**

**Gabriele Lehner**

Austrian Chartered Accountant

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

# 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 and biological assets 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 pre-cise 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 right-of-use assets and amortization of intangible assets and before income from the release of investment grants. The precise derivation can be found in the consolidated income statement.

### EBITDA margin

EBITDA as a 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 inflows 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 corre-sponds 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 inter-nationally 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 ex-change.

### 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 pensions and severance payments.

## 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

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## Imprint


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**Notes:**

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