Lenzing

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How Lenzing commits to future generations

Interim Report 01-03/2020 | **Lenzing Group**

Selected Indicators of the Lenzing Group

Key earnings and profitability figures

EUR mn	01-03/2020	01-03/2019	Change
Revenue	466.3	560.0	(16.7)%
EBITDA (earnings before interest, tax, depreciation and amortization)	69.6	92.0	(24.3)%
EBITDA margin	14.9%	16.4%	
EBIT (earnings before interest and tax)	30.4	54.4	(44.2)%
EBIT margin	6.5%	9.7%	
EBT (earnings before tax)	28.6	53.6	(46.5)%
Net profit for the year (/the period)	17.7	42.8	(58.6)%
Earnings per share in EUR	0.84	1.65	(49.3)%

Key cash flow figures

EUR mn	01-03/2020	01-03/2019	Change
Gross cash flow	38.8	83.7	(53.7)%
Cash flow from operating activities	31.9	73.6	(56.7)%
Free cash flow	(106.7)	28.0	(481.8)%
CAPEX	138.6	45.7	203.4%
EUR mn	**31/03/2020**	**31/12/2019**	**Change**
Liquid assets	572.0	581.0	(1.5)%
Unused credit facilities	233.4	266.6	(12.4)%

Key balance sheet figures

EUR mn	31/03/2020	31/12/2019	Change
Total assets	3,328.0	3,121.1	6.6%
Adjusted equity	1,483.3	1,559.3	(4.9)%
Adjusted equity ratio	44.6%	50.0%	
Net financial debt	561.3	400.6	40.1%
Net debt	663.1	511.4	29.7%
Net gearing	37.8%	25.7%	
Trading working capital	452.6	403.5	12.2%
Trading working capital to annualized group revenue	24.3%	20.7%	

Key stock market figures

EUR	31/03/2020	31/12/2019	Change
Market capitalization in mn	1,338.1	2,198.3	(39.1)%
Share price	50.40	82.80	(39.1)%

Employees	31/03/2020	31/12/2019	Change
Number (headcount)	7,191	7,036	2.2%

The above key financial figures are derived primarily from the condensed consolidated interim financial statements and the consolidated financial statements of the previous year of the Lenzing Group. Additional details are provided in "Notes on the Financial Performance Indicators of the Lenzing Group", available at the following link https://www.lenzing.com/Notes-Financial-Performance-Indicators-Lenzing-Group-2020-Q1, and in the condensed consolidated interim financial statements, resp. the consolidated financial statements of the previous year of the Lenzing Group. Rounding differences can occur in the presentation of rounded amounts and percentage rates.

Management Report 01-03/2020

Along with the health consequences inflicted by the spread of the coronavirus, the socio-economic impact of the "Great Lockdown", which brought large parts of public and economic life to a standstill, was already clearly noticeable in the first quarter of 2020. The International Monetary Fund projects the most severe down-turn of the global economy for 2020 since the Great Depression about 100 years ago. Global economic output is expected to contract by 3 percent in 2020, while a decline by even 6.1 percent is anticipated for the advanced economies. The IMF expects a significant bounce-back for next year, with global economic growth of 5.8 percent year-on-year. However, this scenario assumes that the pandemic will be largely contained in the second half of 2020 and economic activity will normalize again[1].

The COVID-19 crisis had a negative impact on the entire textile and apparel industry in the first quarter of 2020 starting with retail, and therefore also on the global fiber market[2]. After the trade conflict between the USA and China had already led to a significantly more difficult demand situation in 2019, the closure of textile retail stores caused demand for fibers to decline strongly in the first quarter of 2020, initially in China and subsequently in virtually all markets worldwide.

Prices on the cotton market fell by 21.8 percent and amounted to roughly 61 US cents per pound at the end of March according to the Cotlook A-Index – the lowest value in more than 10 years. This should also massively influence the harvest of the coming season as manufacturers in the northern hemisphere currently have to make a decision regarding cotton production under the pressure of historically low prices.

The polyester market recorded a relatively good start to 2020. However, demand held off after the extended New Year's holidays in China. The strong decline in oil prices resulting from a dispute about production limits between Saudi Arabia and Russia had an additional negative impact in March. By the end of the first quarter, the price for polyester plummeted by more than 21 percent to 5,420 RMB/ton.

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, a new all-time low of 9,150 RMB/ton was recorded at the end of March as a result of the lockdown imposed on many of the main markets due to the coronavirus. 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 quarter. At the same time, the urgent need for medical and hygiene products led to a price increase for nonwoven fibers.

In this historically difficult market environment, the Lenzing Group benefited from its diversified business model with the textile and nonwoven fibers segments as well as a global production, sales and marketing network.

The implementation of the major projects in Thailand and Brazil is progressing as planned. After the announcement of the construction of the dissolving wood pulp plant in December 2019, the Duratex Group acquired a 49 percent share in the joint venture LD Celulose as agreed. With a share of 51 percent, Lenzing still holds a controlling interest in this fully consolidated company.

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.

On March 21, Lenzing presented its Sustainability Report 2019, which was also the International Day of Forests. The report sets out how the company is actively dealing with the global challenges. Under the motto "Stand up! Against business as usual", Lenzing emphasizes its wider responsibilities over and above its products. With the implementation of the science-based target, Lenzing actively contributes to mastering the problems caused by climate change. The Lenzing Group is committed to reducing its greenhouse gas emissions per ton of product by 50 percent by 2030 (baseline: 2017) and to become climate-neutral by 2050.

The flexible approach of the sCore TEN strategy is proving particularly useful in the current fight against the COVID-19 pandemic. Accordingly, Lenzing intensified its collaboration with partners along the value chain in the first quarter of 2020 to meet the increased demand for high-quality hygiene and protective products. In late April, Lenzing AG and Palmers Textil AG founded "Hygiene Austria LP GmbH", in which Lenzing AG holds 50.1 percent and Palmers Textil AG 49.9 percent. The newly founded company started producing and selling protective masks for the domestic and European markets from May 2020. The two companies invested several million euros in a modern production infrastructure at the Wiener Neudorf location and secured the corresponding raw material for protective masks production.

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 in the first quarter,

[1] Sources: IMF, World Economic Outlook, April 2020
[2] All production-related figures in this section were updated from the initial estimates published in the Annual Report 2019.
Sources: International Cotton Advisory Committee (ICAC), IMF, Cotton Outlook, CCF Group (China Chemical Fibers and Textiles Consulting), Food and Agriculture Organization (FAO)

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 Lenzing Group intensified its measures for structural improvements in earnings during the reporting period in order to counter the negative effects of the COVID-19 crisis on the business development.

In the first quarter of 2020, revenue declined by 16.7 percent in comparison with the prior-year quarter and amounted to EUR 466.3 mn. The main reason for this was the development of prices for standard viscose (due to significant overcapacity in the market) and other standard fibers. The impact of the COVID-19 crisis further increased price pressure. In addition to price effects, Lenzing also felt the lower demand for textile fibers in all regions. The comparatively positive development of the specialty fiber business and 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 47.3 percent in the first quarter of the previous year to 60.9 percent.

The earnings development 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) decreased by 24.3 percent to EUR 69.6 mn. EBIT (earnings before interest and tax) fell by 44.2 percent to EUR 30.4 mn. EBT (earning before tax) decreased by 46.5 percent to EUR 28.6 mn and net profit for the period was down 58.6 percent to EUR 17.7 mn during the reporting period. Earnings per share amounted to EUR 0.84 compared with EUR 1.65 in the first quarter of the previous year.

The Lenzing Group's total assets rose by 6.6 percent compared to December 31, 2019 and amounted to EUR 3.33 bn as of March 31, 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. CAPEX (expenditures for intangible assets and property, plant and equipment and biological assets) more than tripled to EUR 138.6 mn in the first quarter of 2020. The strong increase in investment volume is attributable to the implementation of the major projects in Brazil and Thailand. Gross cash flow declined by 53.7 percent to EUR 38.8 mn. Liquid assets recorded a nearly stable development compared with December 31, 2019 and amounted to EUR 572 mn as of March 31, 2020. Net financial debt rose by 40.1 percent to EUR 561.3 mn during the same period.

The Lenzing Group's 76th Annual General Meeting has been rescheduled for June 18, 2020 after it was postponed on March 17 against the backdrop of further measures taken by the Austrian government to contain the coronavirus. The Management Board of the Lenzing Group reassessed its original resolution for a dividend distribution of EUR 1.00 and decided to propose to the Supervisory Board and the Annual General Meeting not to distribute a dividend for the 2019 financial year.

Outlook

The Lenzing Group suspended on March 24 its result forecast for 2020 as a consequence of the COVID-19 crisis.

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 3 percent in 2020, while a decline by 6.1 percent is anticipated for the advanced economies.

The impact of the COVID-19 crisis on the business of the Lenzing Group can still not be reliably estimated and strongly depends on the duration of the crisis and its impact on the global economy and textile markets. Consequently, the guidance for 2020 remains suspended.

The comparatively solid business development in the first quarter 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 to a significant contribution to earnings starting from 2022.

Lenzing, May 6, 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

Consolidated Income Statement (condensed)

for the period from January 1 to March 31, 2020

EUR mn

	01-03/2020	01-03/2019
Revenue	466.3	560.0
Change in inventories of finished goods and work in progress	14.8	(5.6)
Own work capitalized	17.3	10.1
Other operating income	15.9	25.0
Gains or losses from the fair value measurement of biological assets[1]	(3.3)	0.0
Cost of material and other purchased services	(275.1)	(334.7)
Personnel expenses	(96.7)	(100.5)
Other operating expenses	(69.5)	(62.3)
Earnings before interest, tax, depreciation and amortization (EBITDA)[2]	**69.6**	**92.0**
Amortization of intangible assets and depreciation of property, plant and equipment and right-of-use assets and income from the release of investment grants	(39.3)	(37.6)
Earnings before interest and tax (EBIT)[2]	**30.4**	**54.4**
Financial result	(1.7)	(0.8)
Earnings before tax (EBT)[2]	**28.6**	**53.6**
Income tax expense	(10.9)	(10.8)
Net profit for the period	**17.7**	**42.8**
Net profit for the period attributable to shareholders of Lenzing AG	22.2	43.8
Attributable to non-controlling interests	(4.5)	(1.0)
Earnings per share	EUR	EUR
Diluted = basic	0.84	1.65

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

for the period from January 1 to March 31, 2020

		EUR mn
	01-03/2020	01-03/2019
Net profit for the period as per consolidated income statement	17.7	42.8
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit liability	4.7	0.0
Financial assets measured at fair value through other comprehensive income	(1.0)	1.0
Income tax relating to these components of other comprehensive income	(0.9)	(0.2)
	2.8	0.7
Items that may be reclassified to profit or loss		
Foreign operations – foreign currency translation differences	(17.1)	15.1
Financial assets measured at fair value through other comprehensive income	0.0	(0.1)
Cash flow hedges	(138.8)	(6.0)
Income tax relating to these components of other comprehensive income	9.6	1.2
Investments accounted for using the equity method - share of other comprehensive income (net of tax)	(4.7)	0.2
	(151.0)	10.4
Other comprehensive income (net of tax)	(148.2)	11.2
Total comprehensive income	(130.5)	53.9
Total comprehensive income attributable to shareholders of Lenzing AG	(81.1)	54.3
Attributable to non-controlling interests	(49.4)	(0.4)

Consolidated Statement of Financial Position (condensed)

as at March 31, 2020

EUR mn

Assets	31/03/2020	31/12/2019
Intangible assets, property, plant and equipment, right-of-use assets and biological assets[1]	1,893.4	1,663.2
Investments accounted for using the equity method and financial assets	63.8	71.0
Deferred tax assets	6.9	7.0
Other non-current assets	39.1	42.7
Non-current assets	2,003.2	1,783.9
Inventories	395.6	395.7
Trade receivables	246.2	251.4
Other current assets	119.6	118.6
Cash and cash equivalents	563.4	571.5
Current assets	1,324.8	1,337.2
Total assets	**3,328.0**	**3,121.1**

Equity and liabilities	31/03/2020	31/12/2019
Equity attributable to shareholders of Lenzing AG	1,382.3	1,513.0
Non-controlling interests	75.5	24.9
Equity	1,457.8	1,537.9
Financial liabilities	1,005.0	852.0
Deferred tax liabilities	29.1	41.9
Provisions	118.9	128.8
Other non-current liabilities	125.3	20.4
Non-current liabilities	1,278.2	1,043.0
Financial liabilities	128.3	129.6
Trade payables	189.2	243.6
Provisions	100.0	87.4
Other current liabilities	174.5	79.6
Current liabilities	592.0	540.2
Total equity and liabilities	**3,328.0**	**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 comprise of standing wood, which are used as raw material in the pulp production. According to IAS 41 (Agriculture) biological assets are measured at fair value less costs of disposal in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity (condensed)

for the period from January 1 to March 31, 2020

EUR mn

	Share capital	Capital reserves	Other reserves	Retained earnings	Equity attributable to shareholders of Lenzing AG	Non-controlling interests	Equity
As at 01/01/2019	27.6	133.9	7.5	1,332.8	1,501.8	32.2	1,533.9
Total comprehensive income	0.0	0.0	10.5	43.8	54.3	(0.4)	53.9
Acquisition/disposal of non-controlling interests and other changes in the scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	(0.1)	(0.1)
As at 31/03/2019	27.6	133.9	18.0	1,376.6	1,556.1	31.7	1,587.7
As at 01/01/2020	27.6	133.9	28.7	1,322.9	1,513.0	24.9	1,537.9
Total comprehensive income	0.0	0.0	(103.3)	22.2	(81.1)	(49.4)	(130.5)
Acquisition/disposal of non-controlling interests and other changes in the scope of consolidation	0.0	0.0	0.0	(84.3)	(84.3)	100.2	15.9
Measurement of puttable non-controlling interest recognized directly in equity	0.0	0.0	0.0	34.7	34.7	0.0	34.7
Dividends paid	0.0	0.0	0.0	0.0	0.0	(0.2)	(0.2)
As at 31/03/2020	**27.6**	**133.9**	**(74.6)**	**1,295.4**	**1,382.3**	**75.5**	**1,457.8**

Consolidated Statement of Cash Flows (condensed)

for the period from January 1 to March 31, 2020

EUR mn

		01-03/2020	01-03/2019
Net profit for the period		**17.7**	**42.8**
+	Amortization of intangible assets and depreciation of property, plant and equipment and right-of-use assets	39.7	38.3
−/+	Other non-cash income / expenses	(18.7)	2.6
Gross cash flow		**38.8**	**83.7**
+/−	Change in inventories	11.3	(0.8)
+/−	Change in receivables	10.0	(30.2)
+/−	Change in liabilities	(28.2)	21.0
Change in working capital		**(6.9)**	**(10.0)**
Cash flow from operating activities		**31.9**	**73.6**
−	Acquisition of intangible assets, property, plant and equipment and biological assets (CAPEX)	(138.6)	(45.7)
−	Acquisition of financial assets and investments accounted for using the equity method	(0.2)	(0.1)
+	Proceeds from the sale of intangible assets, property, plant and equipment	0.0	0.0
+	Proceeds from the sale/repayment of financial assets and the sale of investments accounted for using the equity method	0.9	3.1
Cash flow from investing activities		**(137.9)**	**(42.8)**
−	Dividends paid	(0.2)	(0.1)
+	Investment grants	0.0	0.0
+	Increase of bonds and private placements	83.8	0.0
+	Increase in other financial liabilities	54.9	53.4
−	Repayment of bonds and private placements	0.0	0.0
−	Repayment of other financial liabilities	(35.5)	(70.0)
Cash flow from financing activities		**103.0**	**(16.7)**
Total change in liquid funds		**(3.0)**	**14.2**
Liquid funds at the beginning of the year		571.5	243.9
Currency translation adjustment relating to liquid funds		(5.1)	3.5
Liquid funds at the end of the period		**563.4**	**261.5**
Additional information on payments in the cash flow from operating activities:			
Interest payments received		0.9	0.6
Interest payments made		2.0	1.0
Income taxes paid		12.7	15.5

The condensed consolidated interim financial statements as at March 31, 2020 were prepared based on IAS 34 (Interim Financial Reporting). They are based on the consolidated financial statements as at December 31, 2019 and should therefore always be read in conjunction with these statements.

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

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

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Imprint

Copyright and published by
Lenzing Aktiengesellschaft
4860 Lenzing, Austria
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Concept and edited by
Filip Miermans, Daniel Winkelmeier (Lenzing Group)

Layout and graphic design
ElectricArts Werbeagentur GmbH

Text pages 2-10
Produced in-house using FIRE.sys

Photographs by
Shutterstock.com/FXQuadro

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

This condensed interim group report also contains forward-looking statements based on current assessment and assumptions made by Lenzing Group to the best of its knowledge. Statements using the words “should”, “may”, “will”, “expected”, “intended”, “assume”, “suppose”, “estimate”, “plan”, “anticipate”, “is of the opinion”, “to my knowledge”, “in my estimation” or similar formulations indicate such forward-looking statements. The forecasts relating to the future development of the Lenzing Group are estimates based on the information available at the time of this condensed interim group report going to print. If the assumptions on which the forecasts are based do not occur or risks arise at a level that was not anticipated, actual results may deviate from forecasts.

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