Lenzing

Innovative by nature

www.lenzing.com

Partner for a better future

Annual Report 2018
Lenzing Group

Highlights 2018

Jan. Feb. March Apr. May June July Aug. Sept. Oct. Nov. Dec.

100 new international internships at Lenzing created for university students

Proposal to increase special dividend for 2017

Presentation of TENCEL™ as the umbrella brand for specialty fibers in the textile segment at Première Vision in Paris

Commitment to sustainable forestry and to forests as carbon sinks storing CO_2:
Lenzing publishes Sustainability Report 2017

Global presentation of the new brand identity of the Lenzing Group

Lenzing starts production of LENZING™ ECOVERO™ fibers in China

Investment in another production line for TENCEL™ Luxe filament yarn in Lenzing

Lenzing und Duratex plan to build a 450,000 t dissolving wood pulp plant in Brazil

New production line for lyocell fibers at the Heiligenkreuz site starts operations

Lenzing Group decides to invest more than EUR 100 mn in sustainable production technologies by 2022

Lenzing presents 100 percent eco-oriented collection at Vienna Fashion Week together with designer Juan Carlos Gordillo

New technology for the production of sustainable nonwovens: presentation of LENZING™ Web Technology

Large family celebration of Lenzing's 80-year anniversary

Lyocell expansion project in Mobile, Alabama, temporarily mothballed

Lenzing announces acquisition of the remaining 30 percent share in the Chinese joint venture Lenzing (Nanjing) Fibers

New Center of Excellence is opened in Purwakarta (Indonesia)

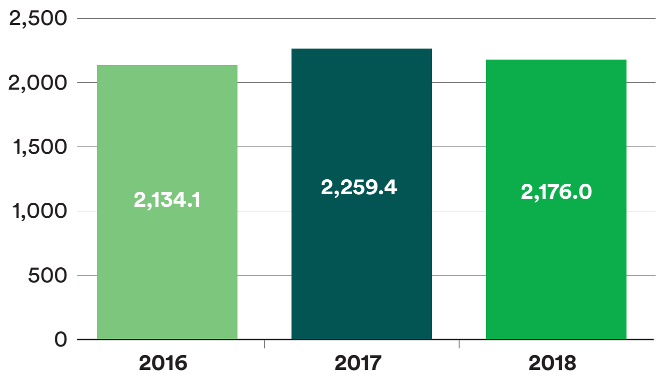
Lenzing and its partners win Austrian State Prize 2018 for Smart Packaging

Lenzing applies for 25 patents for LENZING™ Web Technology for the production of sustainable nonwovens

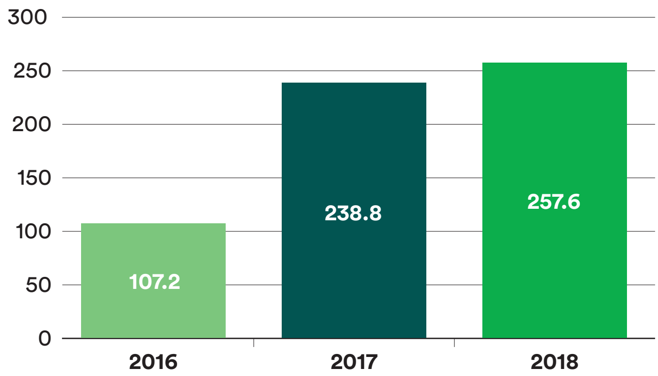
Lenzing supports initiatives of the World Economic Forum and the fashion industry against climate change

Overview of the Lenzing Group

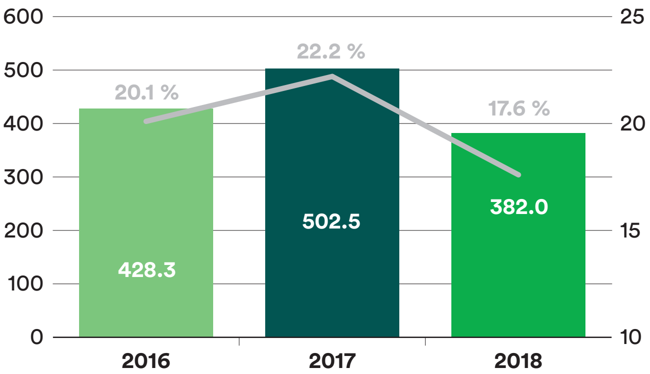
Revenue in EUR mn



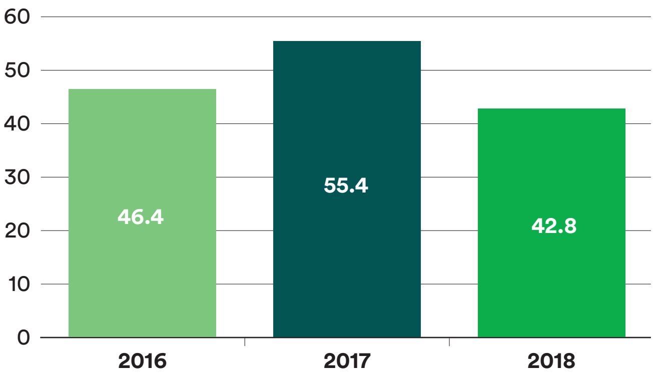
Investments (CAPEX) in EUR mn



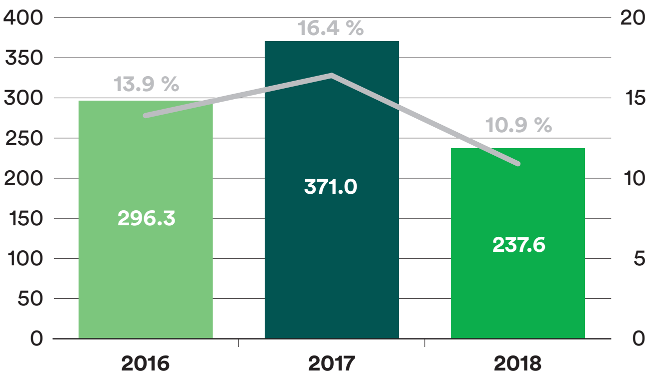
EBITDA in EUR mn **EBITDA margin** in %



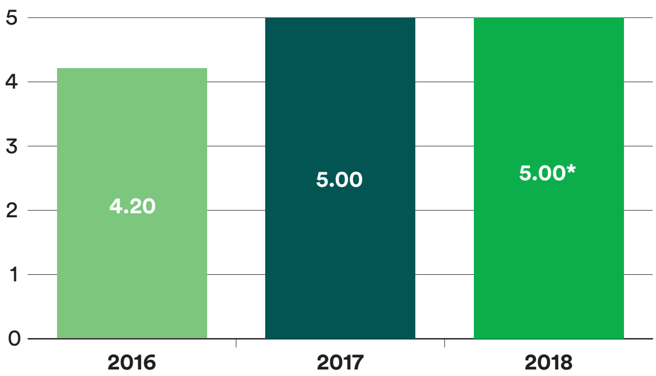
R&D Expenditures (acc. to the Frascati method) in EUR mn



EBIT in EUR mn **EBIT margin** in %



Dividend per share in EUR



The Lenzing Group stands for an ecologically responsible production of specialty fibers made from the renewable raw material wood. As an innovation leader, Lenzing is a partner of global textile and nonwoven manufacturers and drives many new technological developments.

The Lenzing Group's high-quality fibers form the basis for a variety of textile applications ranging from elegant ladies clothing to versatile denims and high-performance sports clothing. Due to their consistent high quality, their biodegradability and compostability Lenzing fibers are also highly suitable for hygiene products and agricultural applications.

The business model of the Lenzing Group goes far beyond that of a traditional fiber producer. Together with its customers and partners, Lenzing develops innovative products along the value chain, creating added value for consumers. The Lenzing Group strives for the efficient utilization and processing of all raw materials and offers solutions to help redirect the textile sector towards a circular economy.

* Based on the proposed distribution of profits.

Selected indicators of the Lenzing Group

Key earnings and profitability figures

EUR mn	2018	2017	Change
Revenue	2,176.0	2,259.4	(3.7) %
EBITDA (earnings before interest, tax, depreciation and amortization)	382.0	502.5	(24.0) %
EBITDA margin	17.6 %	22.2 %	
EBIT (earnings before interest and tax)	237.6	371.0	(36.0) %
EBIT margin	10.9 %	16.4 %	
EBT (earnings before tax)	199.1	357.4	(44.3) %
Net profit for the year	148.2	281.7	(47.4) %
Earnings per share in EUR	5.61	10.47	(46.4) %
ROCE (return on capital employed)	10.3 %	18.6 %	
ROE (return on equity)	12.9 %	24.5 %	
ROI (return on investment)	9.3 %	14.5 %	

Key cash flow figures

EUR mn	2018	2017	Change
Gross cash flow	304.0	418.7	(27.4) %
Cash flow from operating activities	280.0	271.1	3.3 %
Free cash flow	23.5	32.6	(27.7) %
CAPEX	257.6	238.8	7.9 %
Liquid assets as at 31/12	254.4	315.8	(19.4) %
Unused credit facilities as at 31/12	341.6	213.8	59.8 %

Key balance sheet figures

EUR mn as at 31.12.	2018	2017	Change
Total assets	2,630.9	2,497.3	5.4 %
Adjusted equity	1,553.0	1,527.7	1.7 %
Adjusted equity ratio	59.0 %	61.2 %	
Net financial debt	219.4	66.8	228.5 %
Net financial debt / EBITDA	0.6	0.1	332.1 %
Net debt	322.8	172.2	87.5 %
Net gearing	14.1 %	4.4 %	
Trading working capital	444.4	414.4	7.2 %
Trading working capital to annualized group revenue	20.6 %	19.4 %	

Key stock market figures

EUR	2018	2017	Change
Market capitalization in mn as at 31/12	2,109.4	2,810.3	(24.9) %
Share price as at 31/12	79.45	105.85	(24.9) %
Dividend per share	5.00*	5.00	0 %

Employees

	2018	2017	Change
Number (headcount) as at 31/12	6,839	6,488	5.4 %

* On the basis of proposed distribution of profits.

The above financial indicators are derived primarily from the IFRS consolidated financial statements of the Lenzing Group. Additional details are provided in the section "Notes on the financial performance indicators of the Lenzing Group", in the glossary to the Annual Report and in the consolidated financial statements of the Lenzing Group. Rounding differences can occur in the presentation of rounded amounts and percentage rates.

Partner for a better future

For more than 80 years, Lenzing has produced fibers from the renewable raw material wood. Together with its partners, Lenzing develops innovative products for the textile and nonwoven sectors. Lenzing is one of the innovation leaders in the industry, seeks efficient utilization and processing of all raw materials and, together with its partners, develops solutions for the textile industry to develop towards a circular economy.

Content

Annual Report 2018

Introduction by the Chief Executive Officer

Ladies and Gentlemen,

For more than 80 years, Lenzing has offered innovative and forward-looking solutions that provide added value for society and for the protection of the environment. That is what makes us successful. Although the year of Lenzing's 80th anniversary was more challenging than in the preceding years, it was, nevertheless, the fourth best year in the company's history. Thanks to our sCore TEN corporate strategy, our performance was satisfactory given the challenging market environment in 2018 and we managed to mitigate the decline in revenue and earnings. Revenue amounted to EUR 2.18 bn and was only slightly lower than in the previous year. EBITDA (earnings before interest, tax, depreciation and amortization), at EUR 382 mn, was 24 percent lower than in the record year 2017, but still at a high level.

The economic environment as well as the development of the fiber industry confronted the Lenzing Group with numerous challenges in 2018. Growing geopolitical tensions, in particular between the major trading blocks, and the Brexit debate in Europe contributed to increasing uncertainty and to a slowdown of economic growth. Global overcapacities of standard viscose led to a fall in prices and also to a decline in revenue for the Lenzing Group. Although the revenue growth generated with specialty fibers cushioned this decline, it could not completely offset it. In Europe, a significant increase in the price of caustic soda, which is a key raw material for the Lenzing Group, had an additional negative impact. Overall, this demonstrates that the Lenzing Group has adopted the right strategic orientation, and the impact of cyclical effects and the volatility of standard fibers is declining. However, the Lenzing Group is not immune to global developments and further efforts and investments in specialty fibers are required in order to become even more resistant to market fluctuations.

"With our products and especially our new product developments, we make an important contribution to resolving some of the most urgent problems of our time."

Sustainability is the topic that our company and our partners are most focused on in this context. With our products and especially our new product developments, we make an important contribution to resolving some of the most urgent problems of our time. Responsible sourcing of raw materials, transparency along the entire value chain and containing the plastic waste problem are increasingly growing into fundamental challenges for the textile and nonwoven industries. As a long-standing innovation partner of our customers, and a pioneer in sustainable fiber solutions, we are committed to addressing these key issues.

In mid-2018, we decided to continue along our ambitious path and to invest approximately EUR 100 mn in sustainable production technologies by 2022. Our goal is to create a genuine closed-loop model for the textile and nonwoven sectors and to support our customers in replacing resource-intensive and environmentally harmful solutions. With our most recent product innovations, we have taken important steps in this direction:

- In the past year, we developed the LENZING™ Web Technology, a sustainable nonwoven web formation process, which starts with dissolving wood pulp and produces a nonwoven material that consists of 100 percent lyocell filament yarn. This technology, for which 25 patents were applied, offers a unique self-bonding mechanism where filaments bond into a fabric during the laydown process.

- With TENCEL™ Luxe branded lyocell filaments, we have paved the way for sustainability to enter the realm of haute couture. Demand for this "silk made of wood" is strong, which is why we decided to build another production line for TENCEL™ Luxe filaments in Lenzing in 2018.

- TENCEL™ lyocell fibers with REFIBRA™ technology, which were introduced in 2016, are considered as a groundbreaking concept of a circular economy.

- LENZING™ ECOVERO™ viscose fibers, which are 100 percent identifiable, are also in high demand and have been additionally produced in Nanjing (China) since 2018.

We also consistently worked on the five strategic directions of our sCore TEN strategy in 2018 in order to raise our self-supply with pulp, enhance customer intimacy, increase the share of specialty fibers in revenue and to invest in new technologies and business areas. We completed the expansion of our production capacities for lyocell fibers at the location in Heiligenkreuz and acquired the remaining 30 percent of the shares in our joint venture in China. The plan to build a major dissolving wood pulp plant in Brazil as a joint venture with the Brazilian company Duratex represents another future-oriented project. The final investment decision depends on the outcome of the basic engineering study. With this new plant we will implement the sCore TEN target of raising our self-supply with pulp to 75 percent. However, we also had to make the difficult decision in the 2018 reporting year to temporarily mothball the specialty fiber capacity expansion project in Mobile, Alabama. This decision was made in view of the increasing probability of higher trade tariffs, coupled with a potential surge in construction costs due to the buoyant US labor market, which led to a higher risk in this project. Although the construction stop will slow down our plans to expand capacity for specialty fibers, we continue to intensify our focus on the construction of a lyocell fiber production facility in Prachinburi (Thailand). In addition, we will regularly review our decision to postpone the project in Mobile.

With our new brand world and our fresh new appearance, we took a significant step closer to the customers in 2018. We are evolving from a B2B brand to a B2B2C brand: customers are increasingly aware of the brand and consider it a quality promise. We want to support them in their textile purchasing decision by creating a better understanding of the benefits of our fibers. Moreover, we continued to expand the support of our partners in the textile and nonwoven sectors in 2018 and opened another Lenzing Center of Excellence in Purwakarta (Indonesia). In cooperation with our partners, we drive the development of new products at this center and emphasize the opportunities that our new technologies offer.

As you can tell from the results of the previous year, we are taking our role as the driver of the development of the textile and nonwoven industries very seriously and are increasingly able to detach ourselves from the mass market. Every day we work enthusiastically on our highly emotional products made from renewable raw materials, which in turn grow through water, sunlight and the absorption of CO_2. The Lenzing Group holds a solid position in the market and offers its partners many products and solutions that our competitors are unable to offer – a fact that makes us proud of our company.

Therefore, I would above all like to thank our employees, who did an excellent job again in 2018, a rather challenging year, and contributed significantly to making this year a success for the Lenzing Group. On behalf of the Lenzing team, I would also like to thank all shareholders, customers and partners, who again showed us their confidence in the past financial year and work with us in our effort to change the textile and nonwoven industries. Our enthusiasm for the development of our industry remains unabated and we will continue to apply our full energy to it in 2019.

Yours

Stefan Doboczky

Report of the Supervisory Board

To the 75th Annual General Meeting

Dear Shareholders,

The year 2018 was characterized by political uncertainties and increasingly protectionist measures, posing major challenges for globally operating companies with extensive value chains. The Lenzing Group was confronted with falling prices for standard viscose in the market segment of wood-based cellulosic fibers as capacities increased significantly. In addition, higher prices of some key raw materials as well as changes in exchange rates had an impact on the result.

In the past financial year, Lenzing continued to pursue the specialty strategy with the production start of LENZING™ ECOVERO™ fibers in China, the successful 25,000 ton capacity expansion in Heiligenkreuz and the acquisition of the remaining 30 percent share of the Chinese viscose fiber plant. In contrast, the construction of the plant for lyocell fibers in the USA was temporarily mothballed due to the foreseeable trade conflict between the USA and China, and due to the buoyant US labor market, in order to avoid any incalculable risk. From today's perspective, this situation may normalize again in the medium term. With the establishment of a joint venture in Brazil, which is evaluating the construction of a dissolving wood pulp plant, the Lenzing Group is approaching its goal of securing its raw material base.

The Supervisory Board fulfilled the monitoring obligations defined by law, the articles of association and rules of procedure in connection with these diverse activities. It was involved in the fundamental decisions on a timely basis and provided professional advice for the Management Board. The Management Board, in turn, submitted regular detailed reports to the Supervisory Board on the financial position and performance of Lenzing AG and the Lenzing Group. In addition, the Management Board also reported to the Chairman of the Supervisory Board outside the framework of scheduled meetings on the development of business, the position of the company and major transactions. Individual issues were handled in depth by the committees established by the Supervisory Board, which then reported to the full Supervisory Board on their activities.

Supervisory Board meetings

The Supervisory Board of Lenzing AG met five times during the 2018 financial year, where the Management Board reported on the development of business as well as major transactions and measures. The work of the Management Board was also monitored, and the Supervisory Board offered its professional advice on major strategic issues. The meetings concentrated, above all, on the following topics: the development of the business climate, the strategic development of the Lenzing Group, current and planned expansion projects, research and development focal points, staff-related issues and financing measures as well as the discussion and approval of the budget for the 2019 financial year.

In addition, the Supervisory Board addressed the efficiency of its own working procedures and discussed and implemented the resulting measures.

The Annual General Meeting on April 12, 2018 elected Christoph Kollatz, Felix Fremerey and Peter Edelmann to the Supervisory Board. Astrid Skala-Kuhmann, Veit Sorger and Hanno M. Bästlein were re-elected to the Supervisory Board. Felix Strohbichler and Josef Krenner resigned from the Supervisory Board as of April 12, 2018. We would like to thank the departing members of their long-standing commitment and constructive work. In order to provide personnel continuity and to successfully advance the initiated strategic development, Thomas Obendrauf and Robert van de Kerkhof were won for another term on the Management Board and were reappointed by the Supervisory Board.

Committee meetings

The Remuneration Committee established by the Supervisory Board met three times during the reporting year and dealt primarily with the evaluation of performance and definition of goals for the Management Board members as well as general remuneration topics related to the Management Board. Moreover, the remuneration model was revised in 2018.

The reappointment of Thomas Obendrauf and Robert van de Kerkhof was negotiated, finalized and approved.

The Nomination Committee met three times in 2018. The meetings focused, in particular, on personnel development measures and succession planning issues. This committee also prepared the reappointment of Thomas Obendrauf and Robert van de Kerkhof and made an appropriate recommendation to the full Supervisory Board.

The Strategy Committee met twice in 2018. Discussions with the Management Board covered the further development of the sCore TEN corporate strategy at these meetings.

The Audit Committee met three times in 2018. In addition to reviewing and preparing the separate and consolidated financial statements, the committee focused on monitoring the effectiveness of the internal control and risk management systems, addressing compliance-related matters, supervising the internal audit schedule and the implementation of related measures and identifying the future focal points of internal audit.

Additional information on the composition and working procedures of the Supervisory Board and its remuneration are provided in the Corporate Governance Report.

Audit of the annual financial statements, including the management report, and the consolidated financial statements, including the Group management report

The separate financial statements of Lenzing AG, together with the management report, and the consolidated financial statements of the Lenzing Group, together with the Group management report, as at December 31, 2018 were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, and granted an unqualified opinion. The Corporate Governance Report was evaluated by PwC Oberösterreich Wirtschaftsprüfung und Steuerberatung GmbH, Linz, which concluded that the statement by Lenzing AG on its compliance with the Austrian Code of Corporate Governance (January 2018) provides a true representation of the actual situation.

The Audit Committee of the Supervisory Board reviewed the separate and consolidated financial statements, the management report and Group management report, the Management Board's recommendation for the use of accumulated profit and the Corporate Governance Report. The results of this review were subsequently discussed with the auditor in detail. The Audit Committee agreed with the results of the auditor's report based on its review and reported to the Supervisory Board on this matter as required. The committee also recommended that the Supervisory Board submit a proposal to the Annual General Meeting, calling for the appointment of KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as the auditor for the 2019 financial year.

The Supervisory Board formally approved the management report and Corporate Governance Report after its review and adopted the separate annual financial statements for 2018 in accordance with Section 96 Para. 4 of the Austrian Stock Corporation Act. Furthermore, the Supervisory Board stated its approval of the consolidated financial statements and Group management report in accordance with Sections 244 and 245a of the Austrian Commercial Code. In accordance with Section 96 Para. 1 and 2 of the Austrian Stock Corporation Act, the Supervisory Board reported that a separate non-financial report was prepared and audited. The Supervisory Board agrees with the Management Board's proposal for the use of accumulated profit. The Supervisory Board agrees with the recommendation by the Audit Committee and will therefore submit a proposal to the 75th Annual General Meeting for the appointment of KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as the auditor of the annual financial statements for the 2019 financial year.

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

My thanks

Over the past five years, Lenzing AG has undergone reorganization, followed by the redefinition and the beginning implementation of the strategy as a specialty producer. Not only is this strategy starting to bear fruit, but it also clearly demonstrated in the past financial year that Lenzing is pursuing the right course. The innovative drive of our employees will continue to be a fundamental element on the way to being a globally operating company with Austrian roots. Although at times the implementation can be delayed due to external factors, and unfavorable currency and raw material prices sometimes slow us down, the consistent pursuit of our long-term goals led to respectable results again in 2018 and allows us to look towards a promising future.

This is a good time to hand over responsibility and to sincerely thank my Supervisory Board colleagues, our employees, employee representatives and the Management Board for their continued outstanding commitment and excellent collaboration.

I wish Lenzing and its employees as well as our shareholders all the very best and good luck for the future!

Vienna, March 13, 2019

Hanno Bästlein

Partner for a better future – Interview with the Management Board

Stefan Doboczky, Chief Executive Officer of the Lenzing Group, Chief Commercial Officer Robert van de Kerkhof, Chief Financial Officer Thomas Obendrauf and Chief Technology Officer Heiko Arnold talk about the macroeconomic challenges and the growing demand for sustainable solutions by Lenzing.

2018 was a significantly more difficult year for the Lenzing Group than the preceding years. How did the market environment change and how did you react to these changes?

Stefan Doboczky: As expected, the last year was challenging. This was primarily due to a significant increase in economic risks and other influences such as the conflicts between the large trading blocks. The satisfactory results – after all, 2018 was the fourth best year in the company's history – show that the Lenzing Group's strategic repositioning is working and the impact of economic fluctuations is declining continuously.

Robert van de Kerkhof: Moreover, our product innovations are very well received by the market and we are increasingly able to convince textile and nonwoven manufacturers of the product benefits of our fibers. This development is heavily influenced by our new brand architecture and, of course, the new innovation and application centers in Asia, where we can show our partners the wide range of possibilities that our fibers offer.

Thomas Obendrauf: The good product mix has definitely contributed to offsetting higher raw material costs and the increasing price pressure on standard fibers, at least partially. At EUR 2.18 bn in 2018, revenue is therefore only slightly below last year's record level. We expect this price pressure to continue in 2019 as additional production capacities for standard viscose will enter the market and the global economy is also expected to cool down further.

Due to increasing economic risks you postponed a major capacity expansion project for specialty fibers at the location in Mobile (USA) in 2018. What exactly were the reasons for this decision?

Heiko Arnold: This was certainly one of the most difficult decisions we had to make during the past financial year. However, the increased risk resulting from threatening increases in trade tariffs in the USA and a potential cost overrun due to the buoyant US labor market left us no choice. That's why we are currently focusing our efforts on planning a new production site for specialty fibers in Thailand. Of course we will also keep a close eye on the project in Mobile.

Stefan Doboczky: In the area of pulp, we made a crucial decision in the past year. We found a partner in the Brazilian company Duratex for the planned establishment of a dissolving wood pulp plant in South America. This move will take us substantially closer to our strategic goal to increase internal pulp production to 75 percent and will make us even more resilient to price fluctuations in pulp purchases.

How does the changed environment affect the Lenzing Group's financial position? Will you cut investments?

Thomas Obendrauf: Thanks to the good business development we significantly reduced our debt level and increased equity in the past years. We will continue to finance a major part of our investment projects from cash flow and have a comfortable liquidity cushion. That's why we are also well prepared for a difficult market environment.

Heiko Arnold: The projects to eliminate production bottlenecks at the existing locations have been largely completed. However, the basic engineering studies which are currently conducted on the projects for specialty fibers and dissolving wood pulp in Thailand and Brazil will have a substantial impact on investment volume in the years to come.

The most visible changes for Lenzing's customers resulted from the introduction of the new logo and the new product brands in 2018. What impact did these changes have on the market?

Robert van de Kerkhof: With TENCEL™ and VEOCEL™, we have created two clearly distinct product brands for specialty fibers with visibility through to the consumer. LENZING ™ ECOVERO™ also works very well as a brand. The new brand architecture has been well received, but we are definitely only at the beginning of a journey. There is still a great deal of work to be done to familiarize customers and consumers with our brands and the positive environmental properties of our products.

Stefan Doboczky: Lenzing has always been "innovative by nature". That's why our new slogan so perfectly captures the Lenzing spirit. It also defines the direction we pursue with our focus on sustainability and our commitment to projects against climate change. Last year we introduced several product innovations that help to address the plastic waste problem and to replace harmful products with sustainable fibers made by Lenzing. We are particularly proud of the new LENZING™ Web Technology, a wood-based nonwoven web formation process, for which 25 patents were applied.

Chief Commercial Officer Robert van de Kerkhof (CCO), Chief Executive Officer Stefan Doboczky (CEO), Chief Technical Officer Heiko Arnold (CTO) and Chief Financial Officer Thomas Obendrauf (CFO)

What are Lenzing's goals for 2019?

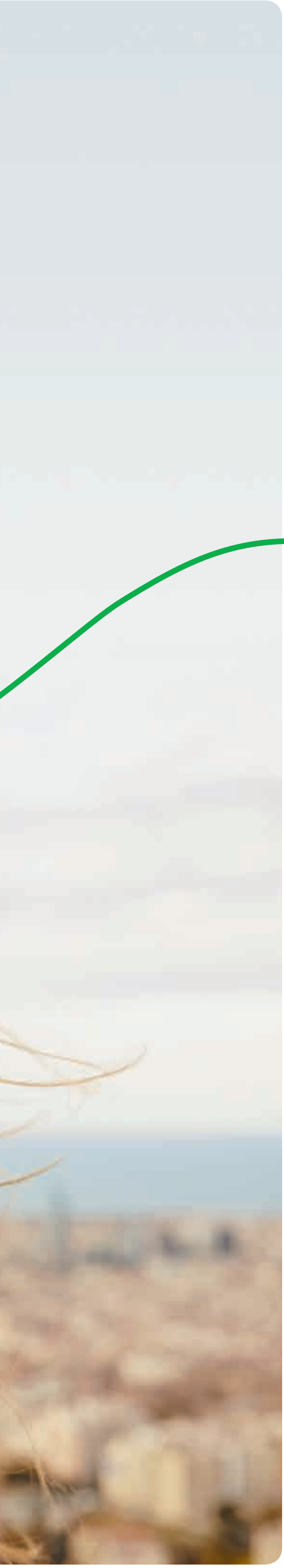
Heiko Arnold: This year, major investment projects will reach the final decision stage. I am referring to the basic engineering studies on the projects for specialty fibers in Thailand and pulp in Brazil. With these projects, we will shape the development of the Lenzing Group in the long term. In addition, it is important to advance all the technological innovations of the past and raise the production volume for these new products. So there is a lot to be done.

Thomas Obendrauf: We are no longer getting the same tailwind from the economic development as in the past years, but our solid accounting policy of the past years helps us cushion the effects. Compared with other companies in the industry, our liquidity is high and our debt is low. However, this relatively good position does not allow us to rest on our laurels. We launched a cost reduction initiative, especially in the area of raw materials, and will also take a close look at other cost items.

Robert van de Kerkhof: The repositioning of our brands has been very well received by our partners and we are very pleased about the positive feedback on our new products. Together with our partners, we want to ensure in 2019 that these new sustainable products become more strongly established in the market and consumers also understand the positive ecological contribution of our fibers even better.

Stefan Doboczky: The positive prevailing mood at all our locations has not changed, even in this increasingly challenging environment. Our employees are highly motivated and our customers consider us a competent partner for innovative, sustainable solutions. Together, we can drive new developments. The market will continue to be difficult, but we will work on creating added value for our customers and consumers with joy and full commitment – and that's what we are proud of.

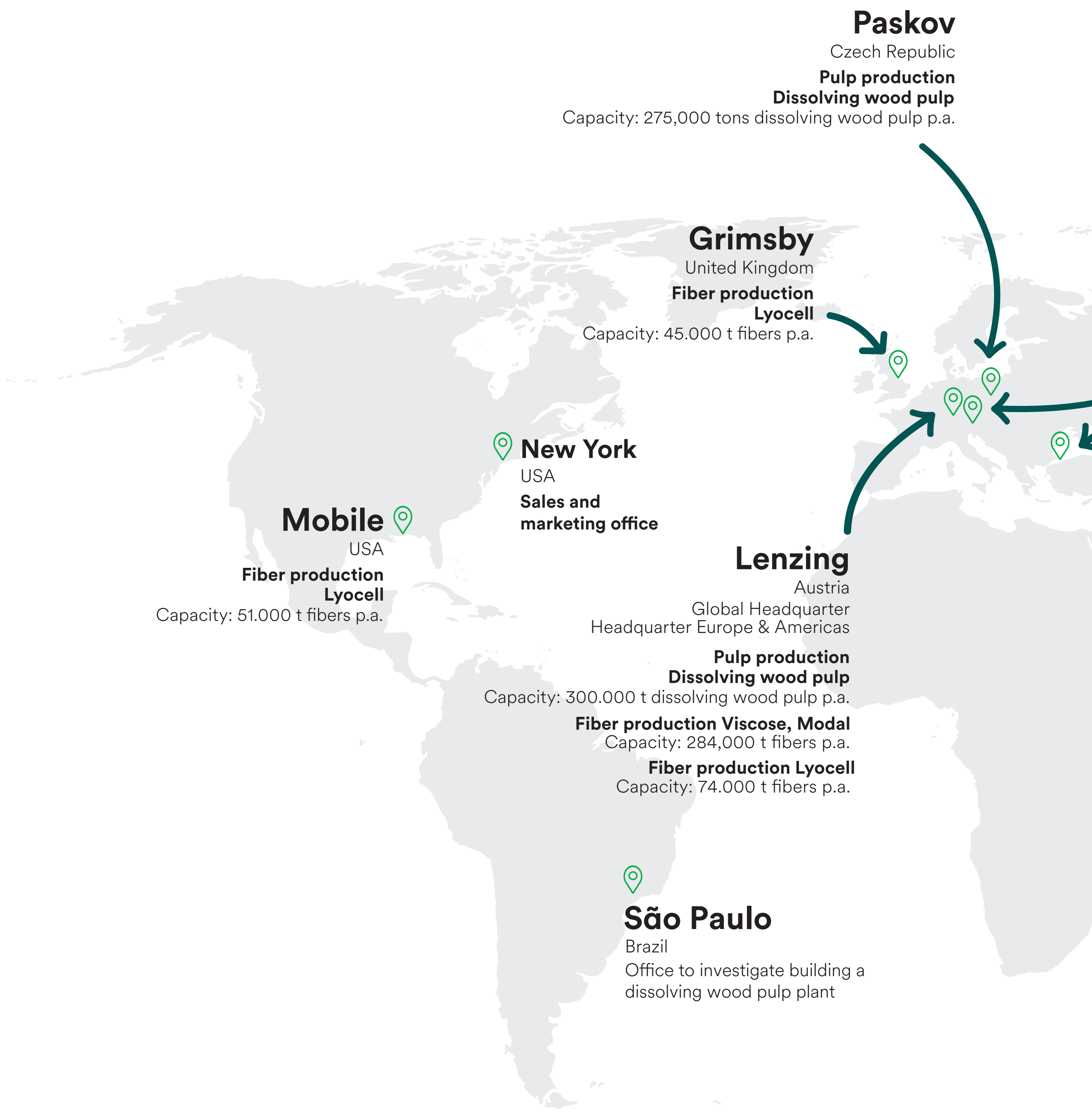
"Last year we introduced several product innovations that help to address the plastic waste problem."



The Company 2018

The Company 2018 10

The locations of the Lenzing Group[1]



1) Nameplate capacities as at December 31, 2018

Heiligenkreuz
Austria
Fiber production
Lyocell
Capacity: 90.000 t fibers p.a.
Nanjing
China
Fiber production
Viscose
Capacity: 178.000 t fibers p.a.
Istanbul
Turkey
Sales and marketing office
Seoul
Korea
Sales and marketing office
Shanghai
China
Sales and marketing office
Coimbatore
India
Sales and marketing office
Hong Kong
China
Headquarter North Asia
Sales and marketing office
Singapore
Headquarter AMEA
(Asia, Middle East and Africa)
Sales and marketing office
Jakarta
Indonesia
Sales and marketing office
Purwakarta
Indonesia
Fiber production
Viscose
Capacity: 323.000 t fibers p.a.
Bangkok
Thailand
Office for planning a new fiber production plant

The strategy of the Lenzing Group

The sCore TEN corporate strategy, which the Lenzing Group has implemented for three and a half years now, outlines the direction the Lenzing wants to take together with its employees, suppliers, customers, partners and investors. The concept of sCore TEN is based on striving for innovation and above-average business success (SCORE), the strong core business with cellulose-based fibers from sustainable production as the driver of the development (CORE) and the focus on growth based on specialty fibers, above all TENCEL™ lyocell fibers (TEN). The heart in the logo represents the corporate values and culture, which were developed as part of the strategy process, and stands for Lenzing as a reliable partner.

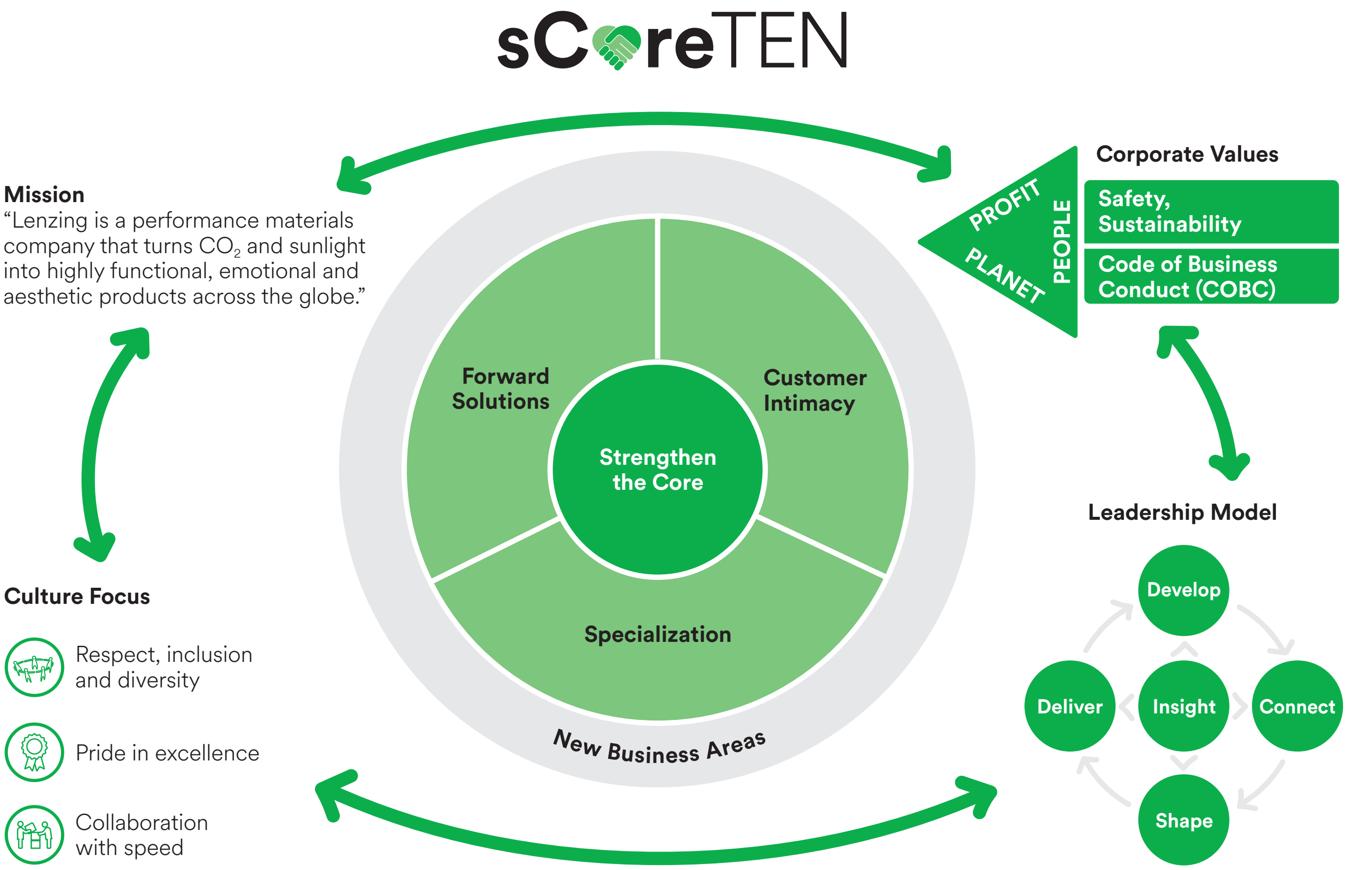
The pulp is at the core of the developed strategy. It is extracted from the renewable raw material wood. The pulp produced in the biorefineries of the Lenzing Group is processed into cellulosic fibers. Lenzing produces most of the pulp internally. In order to be even better protected against volatile prices in the future, Lenzing has set the strategic target to produce roughly 75 percent of its pulp requirements for fiber production internally. The remaining amount is purchased from partners on the basis of long-term cooperation agreements.

Outstanding quality and sustainability form the basis for Lenzing's further development: biorefinery, i.e. the sustainable production of pulp based on the renewable natural raw material wood and the optimal utilization of all components of wood will be expanded. The Lenzing Group expects demand for wood-based cellulosic fibers to increase by 5 to 6 percent each year by 2020, thus nearly twice as fast as the global fiber market. This expansion will be driven primarily by steady population growth and rising prosperity in the emerging markets. The per capita textile consumption in the emerging markets is projected to continue rising strongly. In the industrialized countries, the use of nonwovens will benefit from the rising demand for hygiene products and is expected to grow twice as fast as the textile market. In addition, Lenzing focuses on quality leadership, which also includes a further expansion of partnerships and collaborations with companies along the value chain.

Roughly two thirds of Lenzing's customers are based in Asia, so Lenzing increasingly offers services such as on-site advice and consulting, joint product development and customer support in this region. In 2018, a new development center was set up in Purwakarta (Indonesia); in 2017, an innovation center had been opened in Hong Kong (China). The objective is to further expand partnerships and close collaboration with companies within the value chain in the future.

Specialty fibers are Lenzing's key strength. Lenzing operates globally today and is by far the best partner for high-quality specialty fibers. The Lenzing Group aims to generate 50 percent of its revenue with these specialty fibers by the year 2020, setting itself apart even more clearly from its competitors and becoming increasingly less susceptible to cyclical fluctuations. Lenzing is known for forward-looking technologies and forward solutions: Lenzing wants to continue to lead the way along the value chain with selected partners. The new TENCEL™ Luxe filament fibers and the LENZING™ Web Technology are prime examples of this strategy. And Lenzing will continue to work on useful additions to and expansions of its core business, for example with new business segments.

Overview of the sCore TEN strategy and its five strategic directions



- **Strengthen the core:** The increase in Lenzing's self-supply with pulp to 75 percent of consumption will be secured by backward integration – by increasing the Group's own pulp production volume and/or by expanding strategic cooperations. In this context, a significant step forward is being taken through the joint venture with the Brazilian wood panel manufacturer Duratex for the planned dissolving wood pulp production facility in Brazil. As a result, the Lenzing Group's quality and technology leadership will be expanded.

- **Customer intimacy:** In order to intensify its proximity to customers, Lenzing has anchored decision-making power more firmly in the regions and focused increasingly on direct sales instead of indirect sales through sales agents. Furthermore the company has stepped up its collaboration with customers in the development of new products and established or expanded regional competence centers for product innovation in China and Indonesia.

- **Specialization:** Lenzing plans to generate 50 percent of its revenue with eco-friendly specialty fibers like TENCEL™ and VEOCEL™ and with other LENZING™ specialty fibers by 2020. Depending on market requirements, production capacities for TENCEL™ lyocell fibers will be expanded further; currently the focus is primarily on expanding capacity at the location in Prachinburi (Thailand).

- **Moving forward with new technologies:** Lenzing continues to expand its research and development activities and invests above all in sustainable technology and in selected areas of the value chain. Some of the most recent examples of successful research activities include the LENZING™ Web Technology, the recycling technology REFIBRA™ and TENCEL™ Luxe branded lyocell filament yarn.

- **New business areas:** Lenzing uses its core expertise to develop new attractive business areas over the medium to long term.

Sustainability in the Lenzing Group

Sustainability is one of the fundamental values in the Lenzing Group and is firmly anchored in the sCore TEN strategy. In addition, sustainability also represents the main driving force for innovation decisions and the entire business management. "Naturally Positive", the Lenzing Group's sustainability strategy, was developed based on the materiality analysis conducted in 2015 and 2016. The materiality analysis identifies areas where Lenzing can contribute most to a more sustainable world. Lenzing is passionate about providing the world with sustainable fibers to help cover the growing need for textiles.

The technologies of the Lenzing Group are working examples of a circular economy. The company combines the biological cellulose cycle of its wood-based fibers with innovative technologies, which are characterized by recycling and high recovery rates. The valuable resource wood is utilized efficiently in Lenzing's biorefineries. Lenzing uses the renewable raw material wood to produce functional, esthetic and emotional products. Lenzing fibers are biologically degradable at the end of their lifecycle and, in this way, create the basis for new plant growth.

This model of a circular economy forms the basis for the sustainability strategy of the Lenzing Group. The Lenzing Group's sustainability strategy defines seven core areas where it makes significant contributions and which generate additional benefits for people and the environment. This is the essence of "Naturally Positive".

The seven core areas are:

- Raw material sourcing
- Water stewardship
- Decarbonization
- Sustainable innovations
- Empowering people
- Partnering for systemic change
- Enhancing community wellbeing

Derived from these core areas of the sustainability strategy, the Lenzing Group has set five specific targets in the following areas: emission reduction, improvement of wastewater quality, support of reforestation projects, assessment of suppliers and a more transparent benchmarking of its own production sites. First steps were taken towards a specific CO_2 reduction target in 2018. The Lenzing Group signed the Fashion Industry Charter for Climate Action, which was published on the occasion of the UN UNFCCC in Katowice, Poland. Details on these targets and the implementation of the Lenzing Group's sustainability strategy can be found online at https://www.lenzing.com/en/sustainability/ and in the Sustainability Report.

All components of the raw material wood are valuable. Therefore, Lenzing has separated wood into its valuable individual components for decades and has optimized utilization of them. This concept is called biorefinery. Biorefineries are the heart of Lenzing's pulp production. 100 percent of the renewable natural raw material is utilized – as pulp, as biorefinery products and as bioenergy. The result is a particularly sustainable and effective utilization of the wood.

Lenzing is the site of the world's largest integrated dissolving wood pulp and fiber production facility. In addition to the substantial commercial benefits resulting from the integration of pulp production, this method brings numerous ecological advantages. Lenzing enjoys triple savings over locations that are not integrated: by the optimal use of energy, short transport routes and the elimination of energy-intensive drying and packaging of the dissolving wood pulp. A second location for the production of dissolving wood pulp is located in Paskov (Czech Republic). A third location is being planned in Brazil and will be established as a joint venture in cooperation with Duratex, the largest manufacturer of wood panels in the southern hemisphere. The final investment decision to build this dissolving wood pulp plant is subject to the outcome of the basic engineering studies and the approval by the respective bodies.

Pulp production

Wood is the basis for pulp production and the dissolving wood pulp extracted from wood in turn represents the starting product for the production of cellulosic fibers. Lenzing's pulp production is based primarily on wood that is not suitable for higher-quality uses (for example in the furniture industry). The annual production capacity for pulp at the end of 2018 totaled approximately 300,000 tons in Lenzing and approximately 275,000 tons in Paskov. At these two locations, the capacity for the company's own pulp production will be further expanded through investments of EUR 100 mn. The investment for the dissolving wood pulp plant in Brazil is expected to be slightly above USD 1 bn (based on current exchange rates, net of generic tax refunds and the outcome of the basic engineering study) and will have to be borne by both partners.

At the Lenzing plant pulp production has traditionally been based primarily on beech wood but also includes a small share of spruce and other hardwoods. Spruce is the only type of wood used at the plant in Paskov, which is for the most part purchased in the form of wood chips. In Lenzing, the entire logs are first debarked and hacked into wood chips, which are then processed in the biorefinery. The cellulose component – which represents roughly 40 percent of the wood – is separated as crude pulp, which is chlorine-free bleached and processed into flake or sheet pulp.

Biorefinery products

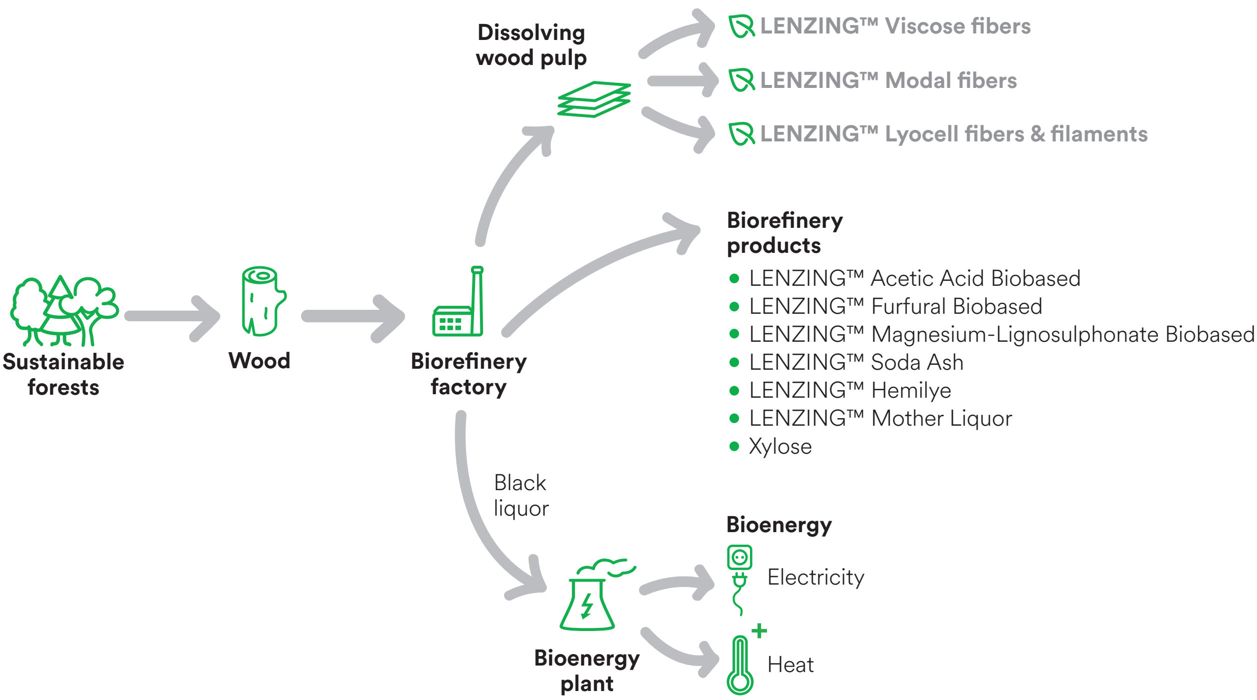
In addition to pulp, the biorefineries also generate and market biorefinery products. Lenzing's products include acetic acid, furfural and xylose as well as magnesium lignin sulfonate, which is also produced in Paskov. Soda is additionally produced at both locations. The production of these biorefinery products therefore supports the utilization of a further 10 percent of the wood.

Bioenergy

Roughly half of the wood consists of products such as lignin, which currently do not allow any higher-quality utilization. They are used as bioenergy and represent the most important source of energy for the plants in Lenzing and Paskov. The latter is completely self-sufficient and also feeds surplus energy into the public electricity grid.

The Lenzing biorefinery

The biorefinery concept in Lenzing, Austria



The new Lenzing brand world

With its sCore TEN corporate strategy – above all through the focus on specialty fibers and with a view to the needs of customers and partners – the Lenzing Group is very well positioned on the textile and nonwoven markets. "Maintaining our technological leadership, at the same time emphasizing partnerships and openness towards our stakeholders plus a stronger focus on the connection between our fibers and the people for whose benefit we develop them." That is the message behind the new brands, which have been visible on the market since 2018.

LENZING™ fibers are "innovative by nature" in two ways. Cellulosic fibers made of wood are a natural product, which has been used by Lenzing for more than 80 years in innovative products for the production of textiles and nonwovens. The benefits of Lenzing's cellulosic fibers are easy to see, touch and feel: soft and smooth, breathable, absorbent, gentle on the skin. All of this is reflected by the slogan "Innovative by nature". The friendly typeface and lively green "Thread of Life" are further elements which underscore the new brand identity.

The visibility of the new brands was significantly improved through numerous appearances and sponsoring activities at international fashion shows as well as through co-branding of the finished products with fashion brands such as Mango, Mara Hoffmann and Levi's in 2018.

The new brand architecture

New look, new structure: The new architecture for the product brands is based on a simple system. With TENCEL™ and VEOCEL™, consumers will now find clearly distinct product brands for the applications of specialty fibers in textiles and nonwovens. Below this top level, the previous product specifications for B2B customers are logically structured by category, e.g. technology, product type or process.

TENCEL™ – the flagship brand for textiles

TENCEL™ is Lenzing's flagship brand for textiles and stands for a variety of specialized applications. All specialty products in the textile segment (e.g. TENCEL™ Denim, Intimate, Active, Home) and technological innovations like REFIBRA™ will be marketed under the TENCEL™ product brand. Specifications (like modal) will still be visible for B2B customers However, TENCEL™ will stand for the characteristics of these lyocell fibers that are most important to end customers: soft to the skin, smooth to the touch, high breathability and fashionable draping properties.

VEOCEL™ – the brand for nonwovens

VEOCEL™ is the brand of choice for all producers who follow a natural approach for care and cleaning products. The focus here is also on the consumers who choose VEOCEL™ as a brand and look to quality and security in cleanliness and care. For the value chain in the nonwoven segment, this creates new possibilities for differentiation.

LENZING™ – the brand for B2B applications

Lenzing fibers are also ideally suited for technical applications like tea bags, coffee pads and filter fibers or as substitutes for synthetic fibers in agriculture. For these B2B applications, which are not important for end consumers, fibers will be marketed under the LENZING™ brand. Specialty fibers which offer protection from heat are marketed under the LENZING™ for Protective Wear brand. The LENZING™ FR fibers used for this purpose provide protection from the following heat sources: fire, radiant heat, electric arcs, liquid metals and flammable liquids.

Lenzing

Innovative by nature

A human, personal B2Me brand: Being closer to what life is all about, being well-known and attractive even on the consumer level and emerging stronger with regards to the competition – these are the economic underpinnings of the brand redesign.

Tencel™ Feels so right | Veocel™ Purely for you | LENZING™

The Lenzing product portfolio

Lenzing fibers are used primarily for clothing, homes & interiors and hygiene products. Biological degradability is in the nature of Lenzing fibers. It closes the cycle – nature returns to nature. Lenzing fibers combine the biological properties of natural fibers with the processing advantages of mechanically produced fibers.

Lenzing lyocell fibers

The Lenzing Group is a leading global producer of lyocell fibers. The origin of all Lenzing fibers is cellulose, a component of the renewable natural raw material wood. Fiber production itself is particularly ecofriendly due to a closed cycle. More than 99 percent of the solvent used is recovered and recycled, making the Lenzing Group's lyocell fibers the fibers of the future. This closed production process was recognized by the European Union with its European Award for the Environment. Products made of lyocell fibers from Lenzing are more absorbent than cotton, softer than silk and cooler than linen. They are used in a wide range of applications that include sportswear, home textiles and mattresses as well as hygiene articles like wipes and baby wipes. Lenzing lyocell fibers are marketed primarily under the TENCEL™ and VEOCEL™ brands.

Lenzing modal fibers

The Lenzing Group's modal fibers are extracted from beech wood which is sourced in Austria and neighboring countries. The low fiber rigidity and modal cross-section make the fiber a natural softening agent. Measurements of the softness factor show that Lenzing modal fibers are extremely soft – in other words, the softer the fiber, the finer the resulting textiles. Modal fibers from Lenzing can be blended with all types of fibers and processed using conventional machinery. Advantages such as mercerizability and uncomplicated processing are what make Lenzing modal fibers the universal genius among cellulosic fibers. These fibers are marketed primarily under the TENCEL™ brand.

Lenzing viscose fibers

Lenzing has been producing classic viscose fiber for more than 80 years. Viscose fibers from the Lenzing Group are made from the renewable raw material wood. They absorb moisture well and are pleasant to wear. Lenzing viscose fibers are premium products on the global market and are used in clothing and hygiene articles. They are a preferred fiber brand for fashionable clothing fabrics and in the hygiene sector, where purity and absorbency have top priority, they are used in products such as wipes, tampons and wound dressings.

Innovations and new products

With its innovative strength and focus on quality, Lenzing sets standards for the field of wood-based cellulosic fibers and drives new developments. In addition to the innovations of the past years such as the REFIBRA™ recycling technology and TENCEL™ Luxe lyocell filament yarn, the LENZING™ Web Technology, a completely new nonwoven web formation process, now represents Lenzing's most recent product development.

REFIBRA™

REFIBRA™ is a technology for the production of TENCEL™ lyocell fibers, which is based, among other things, on cotton scraps left over from the production of cotton clothing. TENCEL™ lyocell fibers with REFIBRA™ technology are the first cellulosic fiber that uses wood as well as recycled materials for pulp production. At present, an estimated 50 million tons of old clothing is disposed of each year. With REFIBRA™, Lenzing is supporting new solutions to introduce a circular economy in the fashion industry and underscoring its position as a sustainable producer.

LENZING™ ECOVERO™

Lenzing's leading role in sustainability was underscored with the introduction of LENZING™ ECOVERO™, a high-performance viscose fiber with a very favorable ecological footprint. Special technology supports the identification of this fiber in the finished products. This new system ensures the identification of LENZING™ ECOVERO™ fibers in the finished textiles, which guarantees transparency along the entire processing chain.

TENCEL™ Luxe

TENCEL™ Luxe branded filament yarn represents a further milestone in the implementation of the sCore TEN corporate strategy and marks Lenzing's entry into the filament market. TENCEL™ Luxe branded lyocell filaments are made of cellulose and do not require spinning. This "silk made from wood" is produced in a closed production loop, which means only a little environmental impact due to low process water and energy use and economical raw materials consumption. With TENCEL™ Luxe filaments, Lenzing will support the luxury brands in the fashion industry and redefine the borders between sustainability and luxury fashion.

LENZING™ Web Technology

The LENZING™ Web Technology can be used to produce novel nonwovens, which will open up new opportunities for manufacturers. The LENZING™ Web Technology is a sustainable nonwoven web formation process that starts with botanic wood pulp and produces a nonwoven fabric made of 100 percent continuous lyocell filament. The technology, for which 25 patents were applied, offers a unique self-bonding mechanism where filaments bond into a fabric during the laydown process. This self-bonding mechanism allows for a much wider variety of basis weight, surface textures, drapeability and dimensional stability than other nonwoven technologies.

Lenzing fiber applications

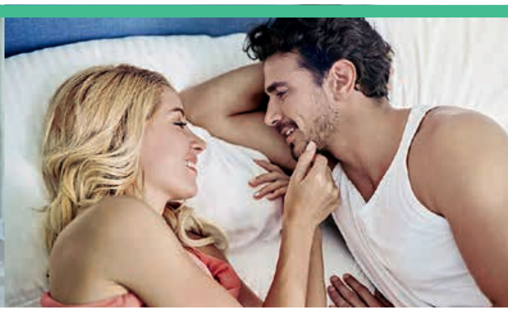
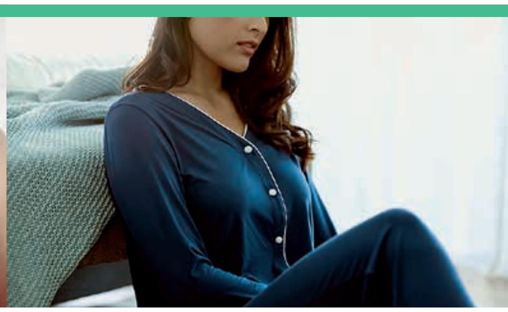
People can dress from head to toe in Lenzing fibers. Whether in underwear, T-shirts or vests for everyday use or in more exquisite evening garments – Lenzing fibers are everywhere.

There are also many different applications for Lenzing fibers in sports activities: in fast drying, breathable, odorless T-shirts, in fleece jackets, in trousers for climbing, running, walking and yoga as well as sports shoes.

In the bathroom, Lenzing fibers can be found in both hand and bath towels. They are soft and, at the same time, absorbent and easy-care. People use hygienic and wet wipes for skin cleansing, and Lenzing fibers can also be found in swabs and pads and in baby diapers and tampons.

The many different household applications include wipes made of Lenzing fibers, and nets made of sustainable, biodegradable Lenzing fibers for fruits and vegetables. These biodegradable fibers

Textile applications

Nonwoven applications


Industrial applications



are also used in agriculture, for example for growing tomatoes. In addition to the fibers themselves, acetic acid and soda as byproducts of fiber production can also be found in food retailing and, as a result, by the consumer.

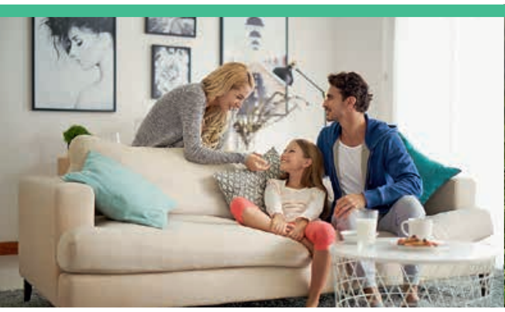
Applications for Lenzing fibers in the medical sector include hygiene and wound care. Lenzing fibers are also an essential component in protective clothing guarding against heat stress.

When people go to bed at night, they can relax in pajamas and on mattresses made with Lenzing fibers. They also cover up with bed linens containing Lenzing products.

Lenzing fibers are found in many areas of life. In the future, Lenzing plans to intensify its efforts to inform consumers that they can also make a personal contribution to sustainability and environmental protection through their daily shopping decisions.

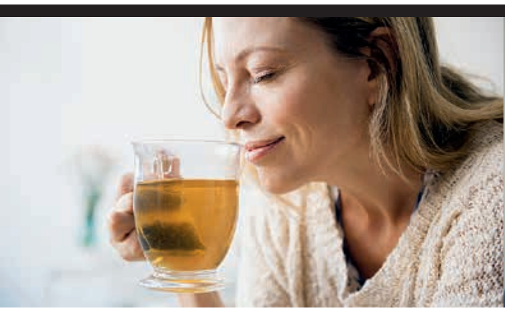
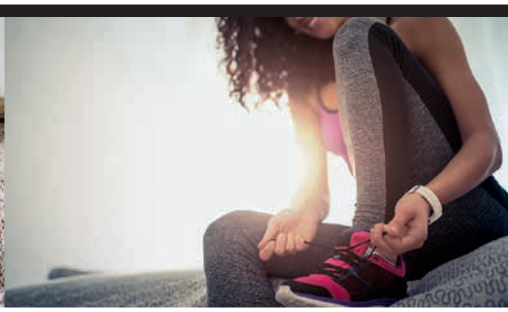
Tencel™ Feels so right

Lenzing EcoVero™



Veocel™ Purely for you

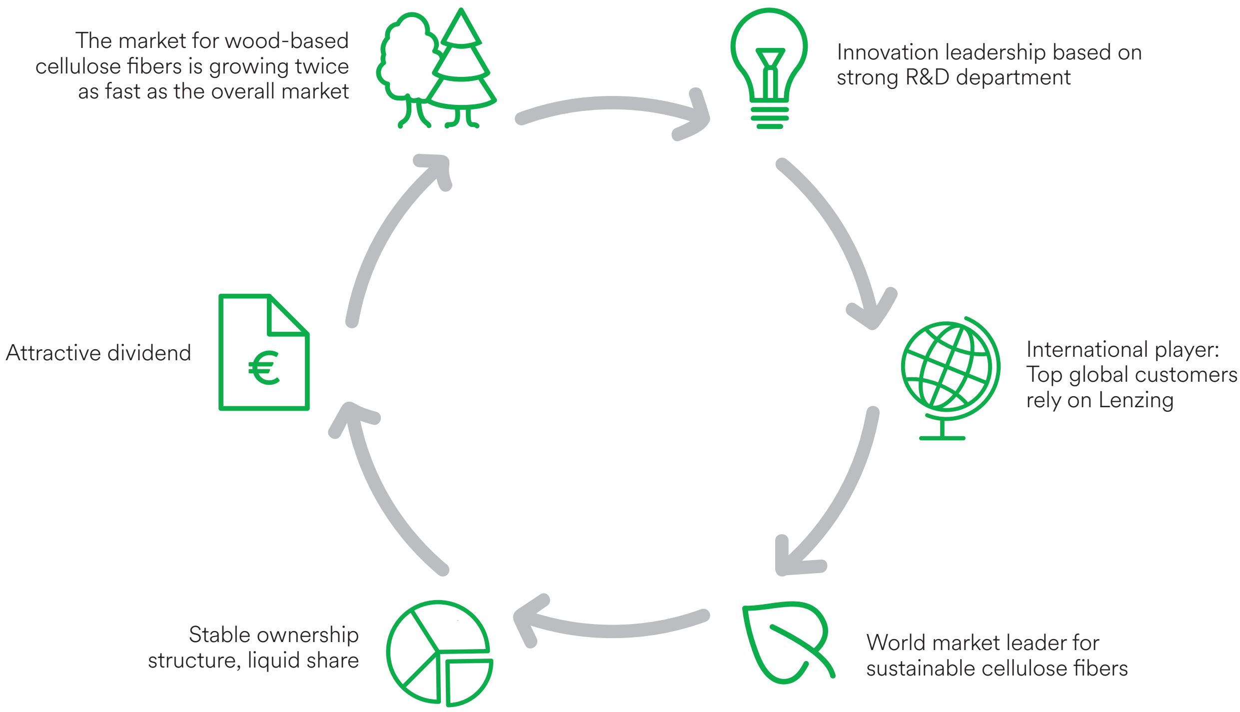

LENZING™


Investor relations and communications

Investor relations

Equity Story

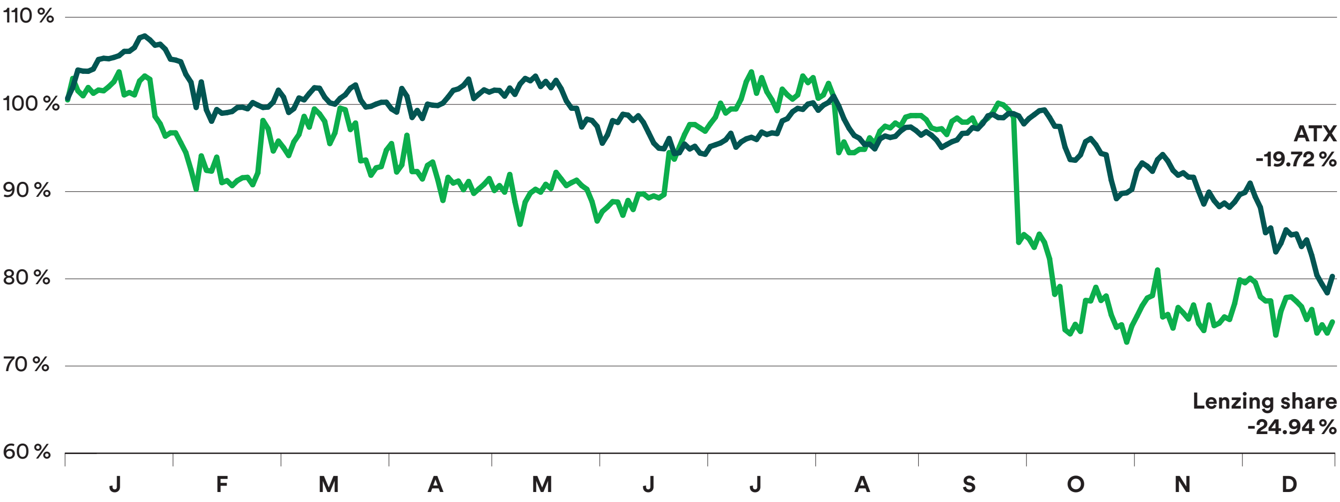


The Lenzing share stands for sustainable investment and enables shareholders to invest in a global market leader in the growth market for cellulosic fibers of botanic origin. The market for wood-based fibers is growing by 5 to 6 percent per year – in other words, nearly twice as fast as fiber market overall. Global population growth, increasing prosperity and the growing importance of sustainability lead to growing demand for wood-based cellulosic fibers. Customers and partners appreciate Lenzing's innovative strength, the quality of its products and its technological solutions. Lenzing is the only manufacturer to offer all three fiber generations – viscose fibers, modal fibers and lyocell fibers – and has launched numerous innovations on the market in the past years. In addition, the new product brands ensure a clear and strong market position for Lenzing and consequently raise their profile amongst consumers.

Lenzing strives for long-term, profitable growth supported by a very solid balance sheet structure and pursues an attractive dividend policy: The guidelines for the capital allocation include expenditures for investments (CAPEX) in organic growth, a dividend typically accounting up to 50 percent of net profit and capital for acquisitions, share repurchases and special dividends.

The Lenzing share

The performance of the Lenzing share
Development of the Lenzing share in 2018 (in percent)



2018 was the most difficult year for the stock markets since the financial crisis in 2008. The Vienna benchmark index ATX closed at 2,745.78 points on December 28, 2018, the last trading day, which represented a decrease by roughly 19.7 percent year-on-year. The Vienna benchmark index reached its high of 3,700.37 points on January 24, 2018.

The Dow Jones Industrial also recorded a year-on-year decline of 5.6 percent to 23,327.46 points. After recording gains for six consecutive years, the German DAX was down 18.3 percent at the end of the trading year 2018. While the start of the year was promising and the German benchmark index climbed to a record high of 13,596 points at the end of January 2018, prices subsequently dropped, fluctuating significantly in some cases. The negative development on the stock markets was attributable to a number of global economic influences, which included the high US interest rates, the conflict between the two major trading blocks, and signs of a slowing economy, above all in China, in the course of the year. In Europe, the Brexit debate and Italy's debt crisis were the dominating topics for the stock markets.

In a significantly more challenging economic environment, Lenzing AG recorded solid results, which, however, did not match those of the record year 2017. Consequently, the performance of the Lenzing share was also below the previous year. The share started the 2018 trading year at a price of EUR 106.4. The annual high of EUR 109.8 was first recorded in January and again on July 16, 2018. The announcement that the completion of the lyocell plant in Mobile, Alabama, would be postponed had a negative impact on the performance of the share. The annual low of EUR 77.85 was recorded on December 10, 2018. The share closed at EUR 79.45 on December 28, 2018. Compared with the closing price of EUR 105.85 at the end of 2017, the annual performance of Lenzing AG declined by minus 24.9 percent in 2018.

The Lenzing share is listed on the Prime Market of the Vienna Stock Exchange. As one of the twenty largest publicly listed companies in Austria, Lenzing is included in the benchmark index ATX (Austrian Traded Index). In addition, the Lenzing share is part of the Vienna Stock Exchange Index WBI and, since 2005, the VÖNIX Sustainability Index. In 2018 the average daily turnover of the Lenzing share fell from more than EUR 14 mn to EUR 8.2 mn. The market capitalization amounted to EUR 2.1 bn as at December 28, 2018.

Key indicators 2018

ISIN	AT 0000644505
Ticker symbol	LNZ
Initial listing	September 19, 1985
Indices	ATX, ATX Prime, VÖNIX, WBI
Number of shares	26,550,000
Share capital	EUR 27,574,071.43
Trading volume	21,361,828
Total turnover	EUR 2,036,343,187.50
Average daily turnover	EUR 8,244,30
Opening price on Jan. 2	EUR 106.40
Closing price on Dec. 28	EUR 79.45
Annual high	EUR -111.6
Annual low	EUR 75.4
Annual performance	-24.90%
Market capitalization on Dec. 28	EUR 2,109,397,500

Investor relations and communications

Investor relations activities

The capital market showed continued high interest in Lenzing AG in the 2018 financial year. In addition to regular disclosure (quarterly reports, ad hoc releases, corporate news), Lenzing participated in stock exchange information days. Analysts and investors were also regularly provided with an overview of current operating and strategic developments in numerous conference calls and individual telephone conversations. The number of one-on-one contacts increased from about 800 to roughly 900 in the 2018 financial year.

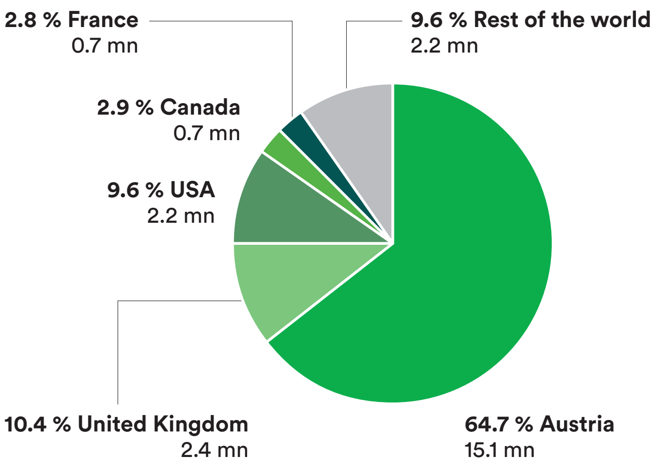
In March 2018 the Lenzing AG website was adapted to the new corporate identity. Accordingly, the investor relations pages were optimized to reflect transparent communication with the capital market.

Shareholder structure

The Austrian B&C Group was the majority shareholder of Lenzing AG with an investment of 50 percent plus two shares as at December 31, 2018. Oberbank AG, a leading Austrian regional bank, held 3.8 of the Lenzing shares. The free float equals 46.2 percent at the reporting date and was distributed among Austrian and international investors. The Lenzing Group did not hold any treasury shares as at December 31, 2018.

The geographical distribution of the identifiable free float was as follows:

Shareholdings per country in percent and millions of shares
as at December 31, 2018 (23,255,648 shares identified)



Analyst coverage

Lenzing was covered by the following equity research companies in 2018: Baader Helvea, Berenberg Bank, Deutsche Bank, Erste Group, Kepler Cheuvreux, Landesbank Baden-Württemberg (paid coverage), Raiffeisen Centrobank.

The latest analyst research is available on the Lenzing website under: https://www.lenzing.com/en/investors/lenzing-share/analysts-consensus

Annual General Meeting

The 74th Annual General Meeting of Lenzing AG was held on April 12, 2018 in Lenzing. All of the proposed resolutions were approved by a high majority of the votes cast. The Annual General Meeting also approved a dividend of EUR 3.00 plus a special dividend of EUR 2.00 per no-par-value share for the 2017 financial year. Based on 26,550,000 shares, this corresponded to a total dividend payout of EUR 132,750,000.00.

Detailed information on the Annual General Meeting, the proposed resolutions and voting results are published on the Lenzing website under: https://www.lenzing.com/en/investors/sharholders-meeting/2018/

The Management Board and the Supervisory Board will present a proposal to the 75th Annual General Meeting on April 17, 2019 calling for the payment of a dividend of EUR 3.00 per no-par-value share and a special dividend of EUR 2.00 per no-par-value share.

Communication

The Lenzing Group continued its intensive press activities in 2018 and held numerous press conferences in Austria and other countries to announce the publication of business results, the opening of new innovation and application centers and the presentation of new products. In March 2018, the Management Board presented the most important business and financial indicators for the 2017 financial year in Vienna, and in August 2018 a press conference on the half-year results was held in Vienna. In late August, Austrian Federal Chancellor Sebastian Kurz, accompanied several ministers, a large business delegation and journalists, visited the Lenzing Application Innovation Center in Hong Kong as part of a first visit. At the end of October 2018, the Lenzing Group invited numerous customers and journalists to the opening of the new Lenzing Center of Excellence in Purwakarta (Indonesia).

In addition, there were many successful appearances and press conferences on product innovations at fashion shows in Paris, London, Vienna, Shanghai, Istanbul, Mumbai and Copenhagen. On the occasion of the launch of the new VEOCEL™ brand, a press conference was organized in Vienna. Press conferences were also held for the launch of the TENCEL™ and LENZING™ brands.

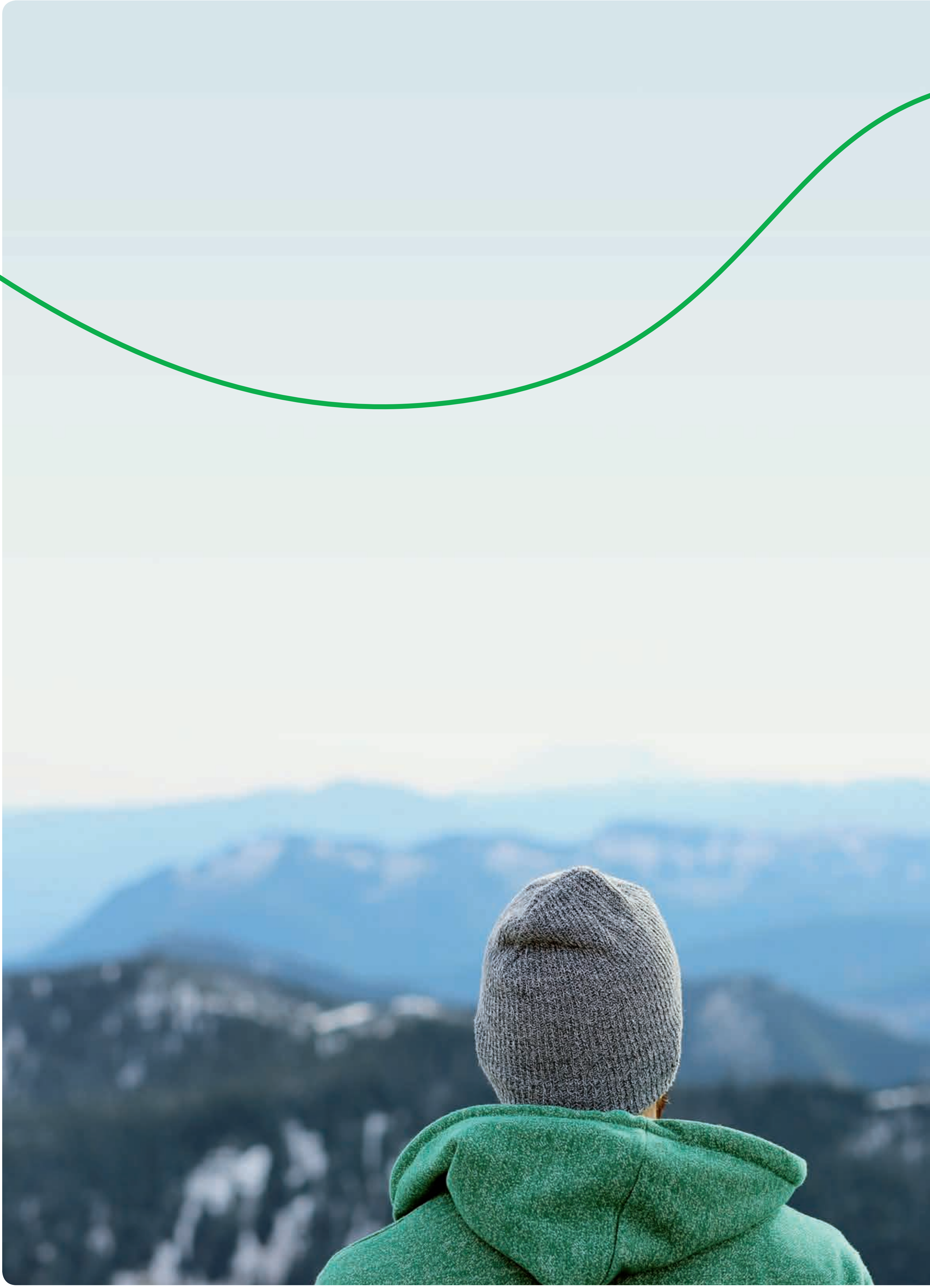
The launch of the new brand architecture, together with a new logo and new product brands, in March 2018 (see section "The new Lenzing brand world") represented a milestone in communication. The website www.lenzing.com also underwent a complete relaunch as part of the development of the new brand world. In addition, new product websites were published for the new brands. They can be found under the following domains: www.tencel.com, www.veocel.com and www.lenzingindustrial.com.

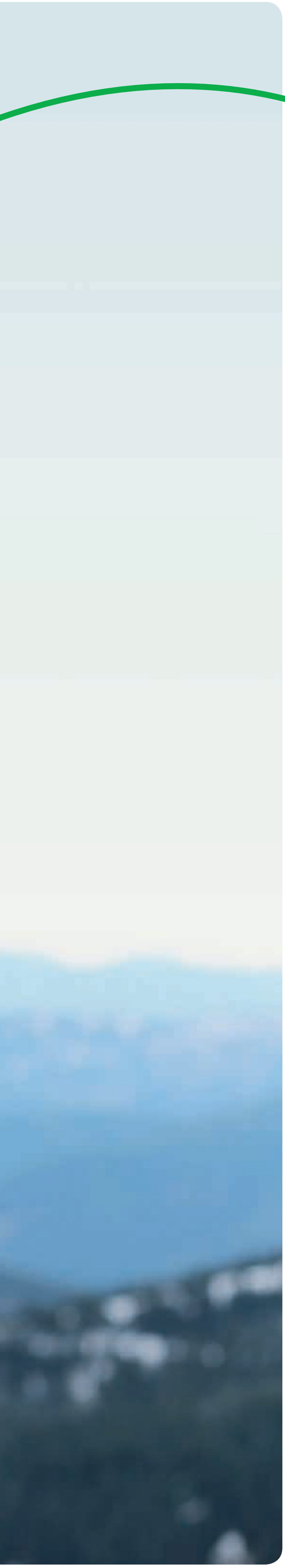
Not only the positioning and the replacement of all logos and other features of our brands, including the "Thread of Life", which illustrates Lenzing's brand personality, constituted an important part of the work of Corporate Communications & Investor Relations. A major focus was also placed on the internal communication of the new brand positioning since this positioning entails the further development of the corporate culture based on Lenzing's history, on the sCore TEN corporate strategy and the new brand identity. In line with the 360 degree communication approach, employees were informed and trained through several channels.

Moreover, press releases and interviews informed the general public of the latest product and technological innovations, major investment and personnel decisions and social commitment as well as important awards and notable certifications in the past financial year. Lenzing's positioning as a sustainable and innovative company was communicated to different target groups by numerous interviews in national and international general and financial media.

Awards

The Lenzing Group received several awards for its sustainability initiatives during the 2018 financial year. The Lenzing Sustainability Report 2017 was awarded as one of the best sustainability reports in the "Large companies" category of the Sustainability Reporting Award 2018. In addition, Lenzing received the "Smart Packaging" State Prize 2018 together with its partners. The Federal Ministry of Digital and Economic Affairs and the Federal Ministry of Sustainability and Tourism awarded the Austrian State Prize in the B2C category to Packnatur® reusable wood-based bags. This reusable bag is made from fibers produced by Lenzing AG and was developed by Lenzing and its partner VPZ Verpackungszentrum GmbH. The bags are utilized in the supermarkets of the Swiss food retailer Coop and the Austrian firm REWE International AG.





Management Report 2018

General Market Environment

Global economy[1]

The overall sentiment was increasingly subdued in large parts of the world in 2018 although the good economic development continued. This was, in particular, due to trade conflicts and growing geopolitical tensions. In its World Economic Outlook of January 2019, the International Monetary Fund (IMF) called for increased international cooperation, and projected global economic growth of 3.7 percent for the 2018 reporting year – compared with 3.8 percent in the previous year.

In the industrialized economies, the growth rate declined slightly to 2.3 percent in 2018 (2017: 2.4 percent). Only in the USA, a policy of tax incentives led to an acceleration of economic growth. In the Euro area, the economy lost momentum. Above all, Italy's budget conflict with the EU, delayed reforms in France, the possibility of a no-deal Brexit, the government crisis in Germany and the politically charged immigration issue had a negative impact on growth.

The IMF also expected a slight slowdown of growth in the emerging and developing economies from 4.7 percent in 2017 to 4.6 percent in 2018. Massive international capital movements and turbulence in the currency markets as a result of a tighter monetary policy in the USA put a brake on the economic development of the emerging countries. In China, the Purchasing Managers Index indicated the first slowdown for the processing industry since 2016. As a result of subdued consumer sentiment, the growth of retail revenue also recorded a significant drop in 2018.

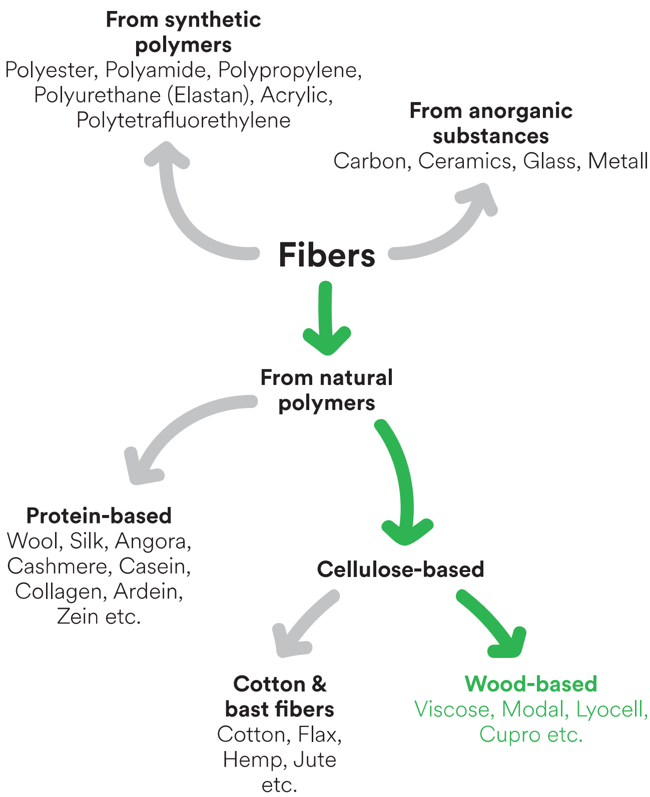
Global fiber market[2]

Production and demand increased in the global fiber market

The global fiber market was marked by a decrease in the cotton harvest, while the supply of all other types of fibers rose at the same time and a general decline in prices of fiber materials and raw materials was recorded from fall 2018 onwards. According to preliminary calculations, global fiber production rose by 0.5 percent from 104.4 mn tons to 105 mn tons. Worldwide fiber consumption was up 1.2 percent to 106 mn tons.

After a significant increase in the previous season, cotton supply is expected to decline by 3 percent in the 2018/19 season although the area under cultivation has remained constant. This is attributable to a continuous decline in prices since mid-2018 and crop failures in the USA and India. The forecast for cotton consumption indicates an only marginally lower level (minus 0.3 percent). In total, demand is expected to exceed supply on the cotton market for the fourth consecutive year, which will lead to a continued reduction of stock levels, especially in China.

Fibers on the world market

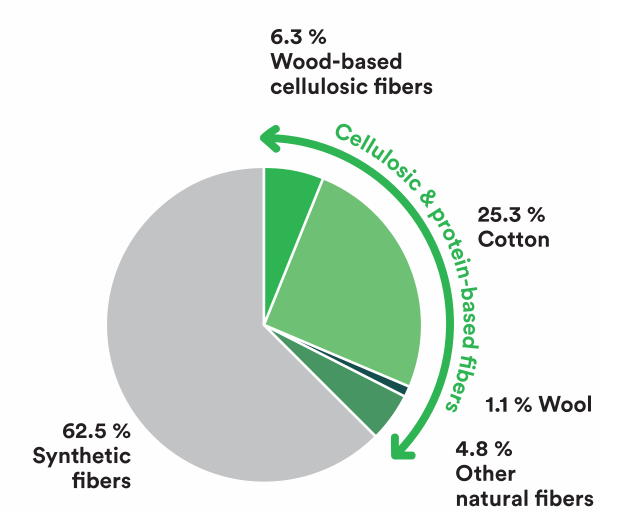


The market for wood-based cellulosic fibers also continued its growth of the past years in 2018. Global production rose by 3.4 percent to roughly 6.7 mn tons. This increase is exclusively attributable to higher supply from Asia. In China, stricter environmental regulations implemented by the government slowed down production in recent years so that a gradual shutdown of older facilities can be expected in the coming years. This was contrasted by substantial replacement investments and new capacities in the reporting year, which were started up step by step in the second half of 2018. The industry also expects significant additional capacity for 2019.

Compared with the preceding years, the production volume of synthetic polymer fibers recorded a weaker increase of slightly over 1.5 percent in 2018. Volume rose to roughly 66 mn tons. With the exception of acrylic fibers, which declined for the seventh consecutive year, all fiber types continued their positive development. Polyester fiber production rose by just over 1 percent to 55 mn tons and was marked above all by the reduction of stock levels in China in the first eight months of the year as a result of price increases. During the remaining four months of 2018, the opposite trend was observed in response to falling raw material and fiber prices.

[1] Source: IMF, World Economic Outlook, January 2019
[2] All production-related data in this section were updated from the initial estimates published in the 2017 Annual Report. Sources: International Cotton Advisory Committee (ICAC), IMF, Cotton Outlook, CCF Group (China Chemical Fibers and Textiles Consulting), Food and Agriculture Organization (FAO)

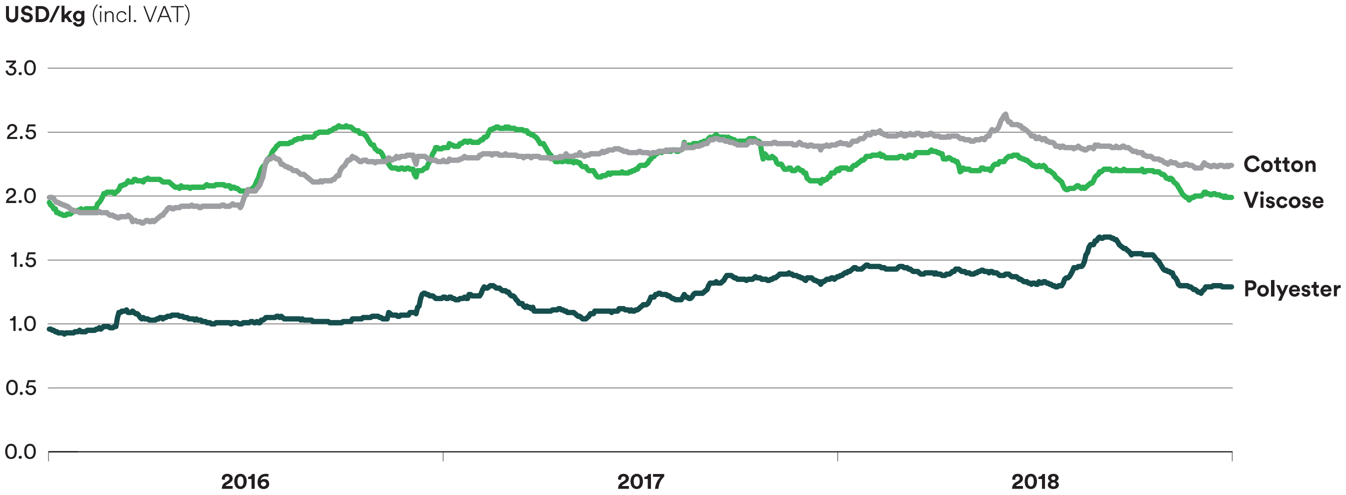
Global fiber consumption in 2018[1]
by type of fiber in percent (basis = 106 mn tons)



Decline in standard viscose prices

The general price level for wood-based cellulosic fibers remained relatively stable during the first half of 2018, while a significant drop was recorded in the second half of the year. After price increases in the past years, standard viscose prices declined, which was in part due to a massive increase in supply and a volatile demand development. Market prices in China fell by 5.7 percent from 14,400 CNY/ton to 13,580 CNY/ton. The annualized price of cotton in China declined by 2.1 percent. Polyester prices dropped by 1.6 percent.

Staple fiber prices – Development in China[2]



[1] Source: ICAC, CIRFS, TFY, FEB, Lenzing Estimates
[2] Source: CCFG, Cotton Outlook

The Business Development in the Lenzing Group

A significantly more challenging market environment led to a decline in revenue and earnings compared with the record results of the previous year. Although the outstanding results of the past years could not be matched, 2018 can be considered a very successful year in view of the market environment. In particular, the success achieved with specialty fibers underscores the chosen strategy. The development of the key financial indicators was influenced by capacity expansions and slightly increasing borrowing requirements.

The decline in revenue by 3.7 percent from EUR 2.26 bn to EUR 2.18 bn in 2018 was attributable to lower fiber selling prices and a slight decrease in standard fiber sales volumes. The lower fiber selling prices are primarily due to currency effects. The Lenzing Group's revenue from specialty fibers continued to grow, but did not fully compensate for the decline recorded with standard fibers, especially standard viscose. However, the earnings development was affected not only by the decline in revenue, but additionally also by higher raw material, energy and personnel costs: As a result, Group EBITDA (earnings before interest, tax, depreciation and amortization)* dropped by 24 percent to EUR 382 mn. The EBITDA margin* fell from 22.2 percent to 17.6 percent in 2018. Group EBIT (earnings before interest and tax)* decreased by 36 percent from EUR 371 mn in the previous year to EUR 237.6 mn. The EBIT margin* declined to 10.9 percent (2017: 16.4 percent).

* Definitions and details on the calculations are provided in the "Appendix. Notes on the Financial Performance Indicators of the Lenzing Group" at the end of the Group Management Report.

A condensed version of the Lenzing Group's consolidated income statement for the 2018 financial year is presented below:

Condensed consolidated income statement[1] EUR mn

			Change	
	2018	2017	Absolute	Relative
Revenue	**2,176.0**	**2,259.4**	**(83.4)**	**(3.7)%**
Change in inventories, own work capitalized and other operating income	149.2	112.8	36.4	32.3%
Cost of material and other purchased services	(1,297.3)	(1,258.0)	(39.3)	3.1%
Personnel expenses	(374.5)	(349.4)	(25.1)	7.2%
Other operating expenses	(271.5)	(262.4)	(9.1)	3.5%
EBITDA	**382.0**	**502.5**	**(120.5)**	**(24.0)%**
Amortization and depreciation	(147.2)	(134.6)	(12.7)	9.4%
Income from the release of investment grants	2.8	3.1	(0.2)	(7.3)%
EBIT	**237.6**	**371.0**	**(133.4)**	**(36.0)%**
Financial result	(16.0)	(7.3)	(8.8)	120.3%
Allocation of profit or loss to and measurement result of puttable non-controlling interests	(22.4)	(6.3)	(16.1)	255.7%
EBT	**199.1**	**357.4**	**(158.3)**	**(44.3)%**
Income tax expense	(50.9)	(75.7)	24.8	(32.7)%
Net profit for the year	**148.2**	**281.7**	**(133.5)**	**(47.4)%**

1) The complete consolidated income statement is presented in the consolidated financial statements.

In the 2018 financial year, the Segment Fibers contributed EUR 2.16 bn to Group revenue. The Segment Technik generated external revenue of EUR 9.8 mn. Revenue in the Segment Other amounted to EUR 2.2 mn.

The cost of material and other purchased services rose by 3.1 percent from EUR 1.26 bn to EUR 1.3 bn during the reporting period. In relation to Group revenue, the cost of material and other purchased services amounted to 59.6 percent of revenue in 2018 (previous year: 55.7 percent of Group revenue), thus increasing for the first time in several years. The increase in cost of material was due to higher market prices, in particular for caustic soda and energy. Adjusted for currency effects, the price of dissolving wood pulp was lower than in the previous year.

Personnel expenses rose by 7.2 percent from EUR 349.4 mn in 2017 to EUR 374.5 mn in the 2018 financial year, primarily due to the growth of the workforce (from 6,488 to 6,839 employees) and to wage and salary increases in Austria and at the other locations. The increase in personnel expenses was dampened by a slight decrease in provisions for bonuses for all employees based on the declining business development. In relation to Group revenue, personnel expenses amounted to 17.2 percent and were higher than in the previous year (15.5 percent).

Depreciation and amortization amounted to EUR 147.2 mn, up 9.4 percent on the prior-year figure of EUR 134.6 mn. The development is based on an increase in property, plant and equipment related to the expansion of capacity, among others in Heiligenkreuz, and, on the other hand, on an impairment of individual assets of EUR 8.6 mn due to the temporary construction stop in Mobile.

The financial result was negative at EUR minus 16 mn (2017: EUR minus 7.3 mn) and includes impairments of financial assets related to outstanding purchase price receivables. Lower financing costs reduced the decline compared with 2017. The allocation of profit and the measurement result to non-puttable interests includes primarily the measurement result from the remaining 30 percent of the shares of Lenzing (Nanjing) Fibers of EUR minus 21.4 mn.

The Lenzing Group recorded significantly lower EBT (earnings before tax)* of EUR 199.1 mn compared with EUR 357.4 mn in 2017. Income tax expense totaled EUR 50.9 mn (2017: EUR 75.7 mn). The income tax rate therefore amounted to 25.6 percent in the reporting year. Net profit, at EUR 148.2 mn, was 47.4 percent lower than in the previous year at EUR 281.7 mn. Earnings per share dropped from EUR 10.47 to EUR 5.61.

ROCE (return on capital employed)* fell from 18.6 percent to 10.3 percent and ROE (return on equity)* from 24.5 percent to 12.9 percent in the 2018 financial year. The Group's ROI (return on investment)* declined from 14.5 percent to 9.3 percent.

Property, plant and equipment increased

Continued investment activities and increased stock levels led to a rise in the Lenzing Group's total assets by 5.4 percent to EUR 2.63 bn as at December 31, 2018 (December 31, 2017: EUR 2.5 bn). It is important to note that property, plant and equipment rose by 9.4 percent to EUR 1.5 bn as at December 31, 2018. Adjusted equity* rose by 1.7 percent from EUR 1.53 bn to EUR 1.55 bn in the reporting year. However, in relation to the increased total assets, the adjusted equity ratio* declined from 61.2 percent to 59 percent at the end of the 2018 financial year.

Net financial debt* of the Lenzing Group, at EUR 219.4 mn at the end of 2018, exceeded the prior-year value of EUR 66.8 mn since new capital was borrowed to finance investments. EUR 29 mn of a private placement were repaid according to schedule; however, the Lenzing Group took out additional new loans from banks and used existing credit lines to a greater extent. The ratio of net financial debt to EBITDA* equaled 0.6 at year-end 2018 compared with 0.1 at the end of 2017. Net gearing*, at 14.1 percent was also higher than in the previous year (December 31, 2017: 4.4 percent). Trading working capital rose by 7.2 percent to EUR 444.4 mn in 2018. The ratio of trading working capital to annualized Group revenue* rose from 19.4 percent at the end 2017 to 20.6 percent at the end of 2018.

Gross cash flow decreased

Gross cash flow* declined from EUR 418.7 mn in 2017 to EUR 304 mn in 2018, primarily due to the decline in earnings. In contrast, cash flow from operating activities* rose by 3.3 percent from EUR 271.1 mn in 2017 to EUR 280 mn in 2018, which is attributable to a positive development of working capital. No receivables were sold on the basis of factoring agreements and derecognized in the past financial year (December 31, 2016: EUR 83.3 mn; December 31, 2017: EUR 0 mn). In addition, CAPEX (acquisition of property, plant and equipment)* rose by 7.9 percent to EUR 257.6 mn in the reporting year (2017: EUR 238.8 mn).

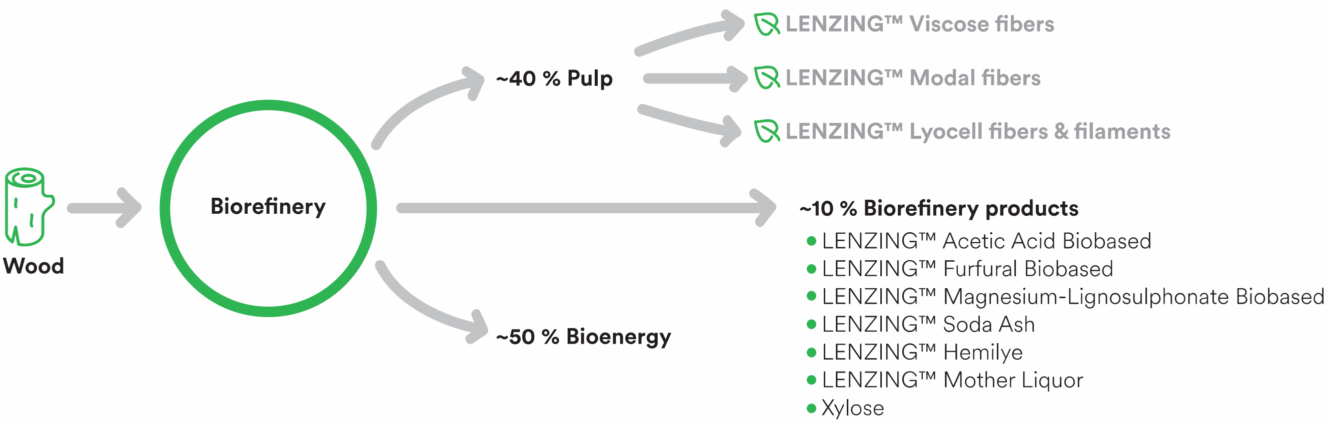
As a result of the continued high investing activities and the dividend payment to shareholders for the record year 2017, liquid assets held by the Lenzing Group fell to EUR 254.4 mn as at December 31, 2018 (2017: EUR 315.8 mn). The Lenzing Group also had unused credit lines totaling EUR 341.6 mn at its disposal at year-end 2018 (December 31, 2017: EUR 213.8 mn.).

* Definitions and details on the calculations are provided in the "Appendix. Notes on the Financial Performance Indicators of the Lenzing Group" at the end of the Group Management Report.

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 2018 financial year, activities in the Segment Fibers focused on the expansion of the share of specialty fibers in line with the sCore TEN strategy. Strong demand for Lenzing fibers led to very good capacity utilization in pulp and fiber production.

Wood

The Central European wood market, which is relevant for the Lenzing Group's wood procurement, was marked by climatic and political influences during the reporting year. Storms like the low pressure systems "Friederike" and "Vaia" caused several million cubic meters of wood to fall in forests in Germany, Austria and Italy. High temperatures, little precipitation and droughts favored the development and proliferation of pests. Bark beetles caused massive damage in the Central European spruce forests. In addition, a project of the Hungarian government to provide people in need with beech firewood had an impact on the market.

The climatic anomalies led to a high supply of spruce wood throughout the year. As a result, the pulp plant in Paskov had sufficient stocks and the favorable purchase prices of the previous year were extended. These market distortions confronted the plant in Lenzing, which needs great volumes of beech wood, with a challenging supply situation until October 2018. Due to the increased necessary felling of softwood, less hardwood was felled. In order to maintain supply overall, wood purchasing activities were extended to Germany, France, Switzerland and Poland. In late October, the low pressure system "Vaia" damaged spruce and beech forests. Stocks in Lenzing were subsequently replenished. The prices for beech picked up slightly in comparison with the previous year.

An audit of the forestry certification systems Forest Stewardship Council® (FSC®) and Programme for the Endorsement of Forest Certification™ (PEFC™) was conducted in Lenzing and Paskov during 2018. The audits confirmed that, in addition to compliance with the strict forestry regulations in the supplying countries, all wood used by the Lenzing Group comes from PEFC™ and FSC® certified or controlled sources. Controversial wood sources are therefore definitely excluded.

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 60 percent of the Group's dissolving wood pulp requirements. The remaining part is purchased on the basis of long-term contracts.

A total of roughly 566,000 tons of dissolving wood pulp was produced at the two pulp plants of the Lenzing Group in 2018, with Lenzing contributing approximately 52 percent and Paskov the remaining part. Further pulp requirements are covered by long-term partnerships with suppliers. The spot market price for pulp in China increased by roughly 4 percent to USD 931/ton in 2018.

The expansion of production at the two locations and the upgrading of the equipment in the amount of EUR 100 mn, which were approved in 2016, continued in 2018.

The Lenzing Group and the Brazilian company Duratex, the largest producer of wood panels in the southern hemisphere, agreed on the terms and conditions to form a joint venture in 2018 to investigate building the world's largest dissolving wood pulp plant in the state of Minas Gerais, near São Paulo (Brazil). The two companies have secured a FSC® certified plantation of 43,000 hectares. The basic engineering and the applications for required permits are proceeding according to plan.

Biorefinery products

Wood from certified and controlled forestry is the basis for the production of biobased materials from the Lenzing Group's biorefinery. Renowned customers from the food, animal feed, pharmaceutical and chemical industries increasingly rely on biobased alternatives to conventional oil-based products. The results for all biorefinery products were increased beyond expectations in 2018. Their integration into the Lenzing Group's brand strategy supports the company's positioning and underscores the Group's pioneering role in this future-oriented segment of bioeconomy.

Energy

The Lenzing Group's procurement strategy for the main cost components, electricity and natural gas, is based on spot market prices. Energy prices recorded a general increase in 2018. Electricity and natural prices rose by more than 30 percent year-on-year and the price of coal was up nearly 11 percent. In addition to low hydropower output due to persistent drought periods and the comparatively weak wind conditions, the split of the common power price zone between Austria and Germany, which took effect in October 2018, had an impact on energy prices. The increase in the price of CO^2 allowances also affected energy prices. Moreover, the oil price soared after OPEC limited oil production, but dropped sharply towards the end of the year because of the uncertain outlook for the global economy and growing geopolitical tensions.

Operations in the Lenzing Group's energy production facilities were normal in 2018. The site in Lenzing traditionally uses renewable fuels, primarily from the biorefinery, as its most important source of energy due to the optimal structure of the facility. They account for 81.7 percent of the energy. The use of conventional fossil fuels like oil, coal and natural gas amounted to 18.3 percent of total energy consumption in 2018. The continuous improvement and optimization of the plants and consumption continued during the reporting year. A new, highly efficient steam turbine was successfully commissioned.

The plant in Paskov was energy self-sufficient again in 2018, and fossil fuels were not required for normal operations. Surplus energy was fed into the public electricity grid. Operations at the plant in Purwakarta (Indonesia) were further optimized, for example through measures to reduce sulfur dioxide emissions. Due to the high coal price in Asia in 2018, energy costs continued to be high at the plants in Purwakarta and Nanjing (China). In Nanjing, the changeover in energy production from coal to natural gas, which is intended to reduce CO^2 emissions, was pushed ahead.

Other raw materials

The prices of chemicals recorded a significant increase in the reporting year. In Europe, this was attributable, among other things, to higher energy and logistics costs as well as the strong economic development. In Asia, the raw material markets were more volatile due to stronger fluctuations between supply and demand; however, the strong economy and stricter environmental requirements also led to a significant increase in costs in this region.

Caustic soda

Caustic soda is used in the production of pulp and is also an important primary product for the production of viscose fibers as well as a co-product from chlorine production. The price of caustic soda in Europe increased substantially in 2018, which was mainly due to the reduction of European capacities by approximately ten percent at the end of the previous year after the closure of facilities based on the amalgam process (using mercury) and, consequently the imbalance of supply and demand, as well as production breakdowns of European suppliers. Asia also recorded substantial price increases in the reporting year, with the situation easing again in the second half of 2018.

Sulfur

Sulfur is an important basic product for the production of carbon disulfide and sulfuric acid, which are used in the production of viscose fibers. After prices declined in the two previous years, sulfur prices increased again in 2018. The reasons were unscheduled downtimes and production breakdowns in different refineries. After a volatile development, market prices in Asia recorded a substantial increase in comparison with the previous year.

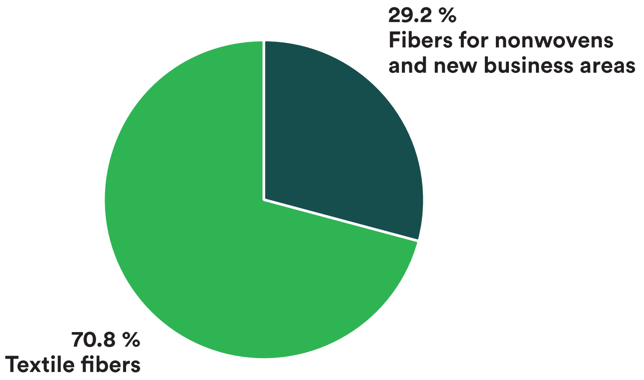
Fibers

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. The visibility of the new brands was significantly improved through numerous appearances and sponsoring activities at trade fairs and international fashion shows as well as through co-branding agreements during the reporting year.

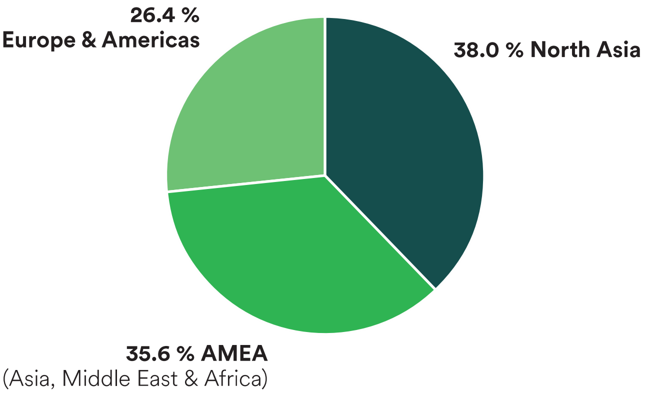
Revenue generated by the Segment Fibers decreased by 3.7 percent to EUR 2.17 bn in 2018. In the previous year, revenue amounted to EUR 2.25 bn. Segment EBITDA dropped by 23.7 percent from EUR 499.2 mn in the previous year to EUR 381 mn in 2018. EBIT of the Segment Fibers fell by 35.8 percent to EUR 234.1 mn (2017: EUR 364.8 mn).

Fiber sales totaled EUR 1.85 bn, with roughly 71 percent attributable to textile fibers and roughly 29 percent to nonwoven applications and New Business Areas. The sales regions were North Asia, followed by AMEA (Asia, Middle East & Africa) and Europe & Americas.

Fiber revenue by segment in percent

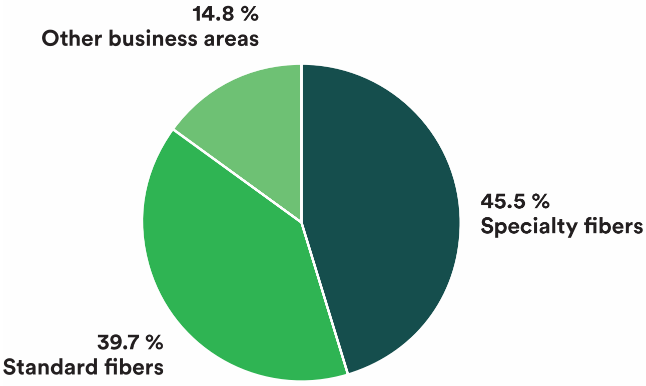


Fiber revenue by core market in percent



The total fiber sales volume declined by 2.9 percent to roughly 915,000 tons in 2018 (2017: approx. 942,000 tons). In particular, the sales volumes of standard fibers, above all standard viscose, decreased, the main reasons being a reduction of fiber trading volumes, product mix effects and unscheduled downtimes in standard viscose production. In contrast, the sales volume for specialty fibers increased during the reporting year. The share of specialty fibers in revenue amounted to 45.5 percent, significantly exceeding the value of 41.8 percent in the previous year. The share of standard fibers decreased from 44.3 percent to 39.7 percent. The share attributable to other business areas grew slightly from 13.8 percent to 14.8 percent in 2018.

Lenzing Group revenue: Share of specialty fibers in percent



Textile fibers

Textile fibers are primarily marketed under the TENCEL™ brand. The demand for TENCEL™ fibers remained high in all subsegments from apparel to home & interior applications and protective clothing. Customers' interest in the most important product innovations of the past years remained strong. Especially LENZING™ ECOVERO™ fibers were very well received by the market thanks to their ecologically compatible production and their groundbreaking identification technology.

Apparel

Apparel, the largest business area in the Lenzing Group, recorded a further increase from the sale of specialty fibers in the reporting year. The fashion industry increasingly uses TENCEL™ Lyocell and Modal fibers as the fiber of choice in terms of sustainability. This development was supported by targeted marketing activities and an even clearer alignment to the requirements of the partners along the value chain up to the fashion brands. For the first time, collections of well known-brands using TENCEL™ fibers are advertised on the product website www.tencel.com, which was launched during the reporting year.

In the market segment Denim, the strong growth of the past years continued during the reporting year. TENCEL™ Lyocell fibers impressed, above all, with their sustainable production and naturally soft properties. The demand for TENCEL™ Modal fibers continued to be strong in the innerwear business due to their particular softness and high wearing comfort in figure-hugging applications. LENZING™ ECOVERO™ fibers, which enable identifiability along the entire value chain and consequently create higher transparency in the fashion industry were well received by the market. TENCEL™ Lyocell fibers with REFIBRA™ technology are still considered a groundbreaking concept of the closed-loop economy and TENCEL™ Luxe filaments further established themselves as the ideal blending partner for silk in haute couture in 2018. Since their presentation in 2017, several collections with luxury brands have been developed for the retail sector.

Home & Interiors

Home & Interiors is an important growth segment for the Lenzing Group. Customers value TENCEL™ Lyocell fibers due to their strength, efficient moisture absorption and pleasant feel on the skin. In 2018, Lenzing implemented new business development activities for three application and business areas: the hotel and hospitality sector through partnerships with important market participants like laundries, carpet applications and new upholstery applications.

Work and protective clothing

Demand for the high-performance LENZING™ FR fiber was strong again in the work and protective clothing subsegment in 2018. The Lenzing Group recorded significant growth again, in particular in the Middle East, China and India. LENZING™ FR fibers are ideally suited for flame-resistant protective clothing due to their inherent fire resistance and comfort and help to reduce heat stress for the wearer. The fibers can also be spun-dyed during production. That eliminates one processing step and helps partners make their production more sustainable.

Nonwoven fibers

The nonwovens business was satisfactory in the 2018 financial year, with high demand across all fiber generations. However, demand shifted towards viscose specialty fibers during the reporting year. Especially in the hygiene segment volume was significantly increased.

VEOCEL™ fibers recorded a significant increase in revenue. Thanks to their skin friendliness, odor resistance and high wet strength, VEOCEL™ fibers are particularly suitable for hygiene products. In addition, sustainability aspects such as the environmentally friendly origin of the raw material and the biodegradability of the fibers have a positive impact on demand. With VEOCEL™ fibers, Lenzing supplies the basic material for hygiene products which can be disposed of with wastewater. This flushability is increasingly gaining importance for the nonwoven industry.

Asia is an increasingly important market for wipes and care wipes as household income has increased, even though Europe and the USA are still by far the largest markets for these products. Moist toilet tissues represent another important growth driver for VEOCEL™ fibers, and the market penetration continued to increase in the reporting year.

Face masks represent a specific application of VEOCEL™ fibers for the cosmetic segment in Asia. This form of skincare has become the standard in recent years. The Lenzing Group has established an excellent position in this submarket with VEOCEL™ Skin fibers, a specially developed product which is generating a steadily rising volume of business. Since 2018, significant increases have also been recorded in western industrialized countries. So-called facial sheet masks are increasingly becoming part of daily cosmetics routine.

New Business Areas

Cellulosic fibers made by the Lenzing Group have a wide variety of applications beyond the textile and nonwoven segments. To place a stronger focus on these areas, a separate business area called “New Business Areas” has been established. It concentrates on determining new application areas and promoting smaller, existing activities in the industrial applications. These activities are supported by customers’ and consumers’ growing awareness of environmentally compatible products and alternatives in order to avoid plastics. This market development is also supported by legislation which promotes completely doing without plastics in some areas such as packaging, thus driving a changeover to sustainable products.

Lenzing continued to increase revenue generated with industrial applications in the area of energy storage systems and filtration in the 2018 financial year. LENZING™ Lyocell impressed with their heat resistance and high filtration efficiency in this area.

The redesigned product brand LENZING™ was presented at Techtextil North America in Atlanta, USA, in the first half of 2018. The partnership with the innovative shoe manufacturer Allbird is another success. Allbird presented its “Tree” collection in 2018, which uses TENCEL™ Lyocell fibers as upper material. In addition, Lenzing and its partners won the Austrian State Prize for Smart Packaging in the B2C category. The prize was awarded for the product “Packnatur® reusable cellulose bag” in November 2018. The reusable bag is made of LENZING™ fibers and was developed together with Lenzing’s partner VPZ Verpackungszentrum GmbH.

Fiber production co-product

The Lenzing Group produces sodium sulfate as a co-product at all locations where viscose or modal fibers are made. Sodium sulfate is used to produce food and animal feed and also by the pharmaceutical, detergent and construction industries.

Sodium sulfate prices stabilized at a high level in the reporting year due to lower production volumes in China and, consequently, lower exports to South America and North Africa. Revenue from sodium sulfate was maintained at a comparable level at the Lenzing site despite lower production quantities.

Segment Lenzing Technik

Lenzing Technik is a supplier of pulp technology and filtration and separation technology. In addition, it has a mechanical construction unit, which operates as a production area within the Lenzing Group.

In the 2018 financial year Lenzing Technik generated revenue of EUR 42.4 mn compared with EUR 42.3 mn in 2017, which corresponds to an increase by 0.2 percent. Of this total, customers outside the Lenzing Group accounted for EUR 9.8 mn (2017: EUR 12.8 mn). EBITDA amounted to EUR 2.2 mn compared with EUR 3.4 mn in the previous year. The number of employees at Lenzing Technik, including apprentices, amounted to 220 at December 31, 2018 (December 31, 2017: 210).

Filtration and Separation Technology

As a pioneer in the field of solid-liquid separation, this business area concentrates on the development and realization of solutions for customer-specific filtration applications. These flexible filtration systems help customers make their production processes more efficient and economical. The positive development of business in this area continued during 2018.

Pulp Technology

The Pulp Technology business area is the Lenzing Group's competence center for the planning and implementation of pulp projects. It offers a full range of engineering services which include, for example, the preparation of feasibility studies, project management and related services as well as the provision and delivery of equipment. This business area plays a decisive role in the strategic increase in pulp integration within the Lenzing Group.

Mechanical Construction

The Mechanical Construction business area manufactures equipment for the Pulp Technology as well as the Filtration and Separation Technology business areas and also provides sophisticated machinery and aggregate components for all plants in the Lenzing Group. During the reporting year activities focused on the expansion of specialty fiber capacity in the Lenzing Group.

Segment Other

Revenue in the segment Other rose by 11.3 percent to EUR 5.3 mn in the 2018 financial year. Of this total, EUR 2.2 mn was attributable to customers outside the Lenzing Group (2017: EUR 2.1 mn). EBITDA declined to EUR 0.9 mn and EBIT decreased to EUR 0.8 mn.

Investments

The Lenzing Group made a number of investments which are crucial to the implementation of the sCore TEN strategy in 2018. CAPEX (acquisition of intangible assets and property, plant and equipment) rose by 7.9 percent year-on-year to EUR 257.6 mn. This is attributable to the increase in internally produced pulp supplies as a result of the expansion of the locations in Lenzing (Austria) and Paskov (Czech Republic) as well as to the focus on specialty fiber growth through capacity expansions at the existing production site in Heiligenkreuz (Austria), the new construction project in Prachinburi (Thailand) and the investments made in Mobile (USA).

In line with the sCore TEN strategy, the Lenzing Group plans to raise the share of specialty fibers in revenue to 50 percent and increase the internal production of pulp towards 75 percent of total requirements by 2020.

The expansion and modernization of the dissolving wood pulp plants in Lenzing and Paskov are expected to increase pulp production capacity by roughly 35,000 tons annually.

As a result of the decision to temporarily mothball the lyocell capacity expansion project in Mobile in view of the buoyant labor market in the USA and the economic tensions between the major trading blocks, the implementation of the plan for specialty fiber growth will be slowed down. However, the Lenzing Group adjusted its growth plan accordingly in order to meet strong market demand for its lyocell fibers. This includes an increased focus on the lyocell expansion project in Prachinburi. The planned production facility with a capacity of up to 100,000 tons will further strengthen the Lenzing Group's global lyocell network.

The start-up of new capacities for lyocell fibers in Heiligenkreuz, the production start of LENZING™ ECOVERO™ fibers at the Nanjing site and the investment in another pilot plant for TENCEL™ Luxe filaments of up to EUR 30 mn are further important steps to achieve the goal of increasing the share of specialty fibers in total revenue. In September 2018, Lenzing announced the successful development of the LENZING™ Web Technology, a new technology platform focusing on sustainable nonwoven products, which opens up new market opportunities for the industry. After several years of research and development as well as investments of EUR 26 mn, Lenzing successfully started the pilot plant at the Group's headquarters in Lenzing.

In July 2018, the Lenzing Group announced investments of more than EUR 100 mn in sustainable manufacturing technologies and production facilities by 2022. A major part of these investments will focus on closed-loop production processes and the modernization of effluent treatment units. In addition, Lenzing invests in improving the energy mix.

In November 2018, the Lenzing Group acquired the remaining 30 percent of its Chinese subsidiary Lenzing Nanjing Fibers (LNF) from its state-owned joint-venture partner NCFC. The acquisition paves the way for setting up further production lines for specialty fibers and for accomplishing the goal of gradually converting Lenzing Nanjing Fibers into a specialty fiber location.

Research and Development

Research and development activities in the Lenzing Group are concentrated in the Global R&D Department, a corporate unit in Lenzing. This central research is closely linked to other business areas such as business management, production, engineering, business development, application technology, customer service and sales as well as the individual regions. An intensive exchange of know-how also takes place with the application and innovation centers in Hong Kong and Purwakarta, where new applications for the Lenzing Group's fibers are developed together with customers. Based on these joint development activities, Lenzing intensifies its global cooperation with partners along the value chain.

At the end of 2018, 204 employees worked in Global R&D, focusing primarily on new and further developments of technologies, processes, products and applications for wood-based cellulosic fibers. R&D expenditures, calculated according to the Frascati method (i.e. after the deduction of grants), declined from EUR 55.4 mn to EUR 42.8 mn since important investment projects were completed. Nevertheless, the R&D expenditures represent a peak value in an industry comparison, both in absolute terms and in relation to revenue. The achievements of Global R&D are also reflected in 1,324 patents and patent applications (from 242 patent families), which the Group holds in 49 countries throughout the world.

Focal points in 2018

One of the major innovations presented in 2018 was the LENZING™ Web Technology. This newly developed, sustainable nonwoven web formation process starts with botanic wood pulp and produces a nonwoven fabric made of 100 percent continuous lyocell filament. This technology, for which 25 patent applications were filed, offers a unique self-bonding mechanism where filaments bond into a fabric during the laydown processes. This mechanism allows a reduction of processing steps; as a result, unique nonwoven fabrics can be produced and resources can be saved. Nonwovens produced with the LENZING™ Web Technology are 100 percent natural and, as opposed to other products on the market, also biodegradable.

Another research focus was the enhancement of the REFIBRA™ technology. This technology enables the production of lyocell fibers which in part consist of recycled materials from textile production. Research now focuses on finding out to what extent recycled textile products which have been worn by consumers can also be used for fiber production.

In addition, R&D continues to drive the optimization and improvement of the production processes for pulp and the various fiber types. The R&D focal points are generally on optimizing the closed loop economy, for example in the area of pulp, and on improving the utilization of the raw material wood in the biorefineries of the Lenzing Group. In terms of fiber development, Global R&D also supports the further development of production technologies and capacity expansions for the production of lyocell fibers. On the product side, new types of fibers are being developed (some of them with special functions) for both textile and nonwoven applications, and applications for existing and new fibers are devised, also in cooperation with customers and partners along the value chain.

Innovation centers

In late 2018, the Lenzing Group opened a new innovation center at the Indonesian production site in Purwakarta, the Lenzing Center of Excellence, thus covering the entire value chain of its customers and partners in Asia. At the new Lenzing Center of Excellence, Lenzing develops new yarns in cooperation with its customers and offers special laboratory facilities to test the different types of fibers and yarns, while the focus of the Application Innovation Center in Hong Kong is primarily on innovations from yarn to fashion.

Non-financial Performance Indicators

Sustainability

Environmental protection, sustainable business development and responsibility for people are part of Lenzing's fundamental values. Sustainability is therefore firmly established in the sCore TEN strategy. Further information on the topic of sustainability is provided in the Sustainability Report of the Lenzing Group, which also represents the non-financial statement in accordance with Section 267a of the Austrian Commercial Code.

Focal points in 2018

"Naturally Positive", Lenzing's sustainability strategy, is based on the "3-P" dimensions: People – Planet – Profit. Within this strategy, Lenzing has defined seven core areas to which it makes significant contributions and which provide added benefits for people and the environment. These seven core areas are:

- Sustainable raw material sourcing
- Water stewardship
- Decarbonization
- Sustainable innovations
- Empowering people
- Partnering for systemic change
- Enhancing community wellbeing

Based on the sustainability strategy and the seven core areas, the Lenzing Group pursues operational goals which develop their effect in the short, medium or long term. Concrete plans include a 50 percent reduction of sulfur emissions (carbon disulfide and hydrogen sulfide) by 2022, which is to be achieved especially by reducing sulfur emissions at the production site in Indonesia. In addition, a 20 percent reduction of the water load (chemical oxygen requirement) is planned by 2022 based on measures at the sites in Grimsby (United Kingdom) and Purwakarta (Indonesia). A forestry protection and reforestation project in Albania was also started during the reporting year. Moreover, an evaluation of the environmental performance of the Lenzing Group's most important suppliers began in 2018. The objective is to evaluate 80 percent of the key suppliers by 2022. Furthermore, a transparent assessment of the production sites in accordance with the HIGG Facility Environmental Module 3.0[1] was launched in 2018. This evaluation of all production sites of the Lenzing Group is expected to be completed in 2019. The Lenzing Group set up an investment program of EUR 100 mn in 2018 in order to achieve these targets.

The technologies of the Lenzing Group are working examples of a circular economy. In order to further promote the circular economy within the textile industry, Lenzing participates in the activities of the following multi-stakeholder initiatives and non-governmental organizations: World Economic Forum, Sustainable Apparel Coalition, Textile Exchange, Canopy, Circular Fibres Initiative (Ellen MacArthur Foundation) and Science Based Targets Initiative (World Resources Institute).

[1] The Higg Facilty Environmental Module of the Sustainable Apparel Coalition (SAC) is an instrument which is used to measure the environmental and social sustainability performance of global production facilities.

Certification status in the Lenzing Group

The operations at all Lenzing production facilities are based on sustainability – in the economic, ecological and social sense of the term. All fiber and pulp plants have received ISO 9001, ISO 14001 and OHSAS 18001 system certifications and successfully completed the audit according to the new rules of ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007. The responsible procurement of wood and pulp is certified by the audit according to the FSC® and PEFC™.

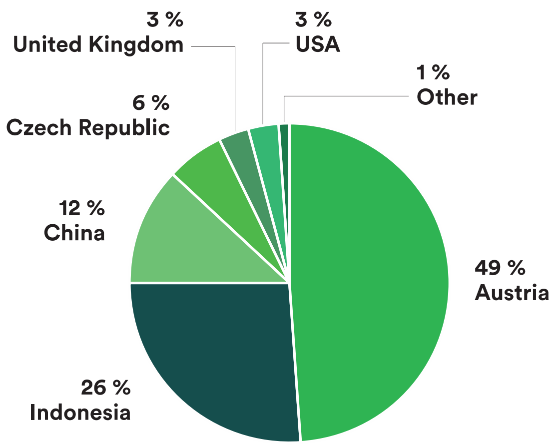
Certification status in the Lenzing Group

	ISO 9001	ISO 14001	OHSAS 18001
Lenzing (Austria)	✓	✓	✓
Heiligenkreuz (Austria)	✓	✓	✓
Grimsby (United Kingdom)	✓	✓	✓
Mobile (USA)	✓	✓	✓
Purwakarta (Indonesia)	✓	✓	✓
Nanjing (China)	✓	✓	✓
Paskov (Czech Republic)	✓	✓	✓

Employees

The Lenzing Group had a worldwide workforce of 6,839 as at December 31, 2018 (December 31, 2017: 6.488), including 182 apprentices (December 31, 2017: 173). The number of employees working at the corporate headquarters in Lenzing totals 2,831 at the end of 2018 (December 31, 2017: 2,646), including 120 apprentices (December 31, 2017: 113).

Employees by country



Lenzing supports the potential and skills of its employees through a broad range of personnel development measures and tailored training programs. Total expenditures for life-long learning and personnel development rose again from EUR 5.1 mn in 2017 to EUR 5.9 mn in 2018. Most of the educational and development programs at the corporate headquarters in Lenzing are carried out internally by the company's educational center (BZL).

Training and further education

The sCore TEN strategy and, in particular, the cultural focus and the Leadership Model of the organization form the basis for all training and further education activities of the Lenzing Group. During the reporting year, Lenzing intensified these activities and started new training programs. "Leaders of Tomorrow" is a tailored development program for employees working in production, which provides for a 3-month job rotation at the locations in the United Kingdom, the Czech Republic and Indonesia. The "sCore TEN fit" program was started with three groups and includes psychological training elements for the training of managers. An onboarding and buddy program was introduced in Lenzing to help new employees integrate in the best possible way and to provide them with a deeper understanding of the company's business model.

Training programs which are well established at the location in Lenzing were rolled out globally and introduced at other sites. They include the "Global Fiber Academy", which was set up in 2004 with the objective to improve interdisciplinary knowledge of fibers as well as the understanding of the value chain, and the "Commercial Academy", a training program for employees in the commercial area who want to expand their technical know-how, their legal knowledge and their negotiating skills.

The 16-month "Springboard" program ended for 26 highly motivated junior executives of the Lenzing Group in the summer of 2018. This global junior leadership program, which was launched in 2014, focuses on the issues of culture and change, decision-making, leadership, international communication as well as virtual and practical cooperation.

Diversity

Respect, diversity and inclusion are the cornerstones of the sCore TEN corporate strategy, as well as integral and indispensable parts of the Lenzing Group's corporate culture. Diversity plays an increasingly important role in filling management level positions in the company.

Safety, Health and Environment

In 2018 further measures were taken in the Lenzing Group to increase occupational safety and the group-wide health management was developed further. The area "Global Safety, Health and Environment" (Global SHE) plays a leading role in working on the improvement of key figures for safety, health and environment with the employees and the production areas.

Safety

The Lenzing Group considers the protection of its employees and the environmental protection a fundamental requirement of entrepreneurial actions; therefore, they are an integral part of the Lenzing Group's corporate values. The "Heartbeat for Safety" program, which was launched in 2016 with the aim to raise awareness of safety and environmental protection and to ensure continuous improvements in this respect, was consistently implemented during the reporting year.

One focal point was the "Safety Walks and Talks" training and discussion format. Since its beginning in 2016, roughly 750 managers have received training on how to hold successful talks about safety. By the end of 2018, 12,442 "Safety Walks and Talks" had been held. In addition, the existing rules to prevent severe accidents as a result of dangerous activities, the "Life Saving Rules", were further standardized. Moreover, audits were performed at all locations to examine contractor management and a standardized guideline was developed and will be implemented in 2019.

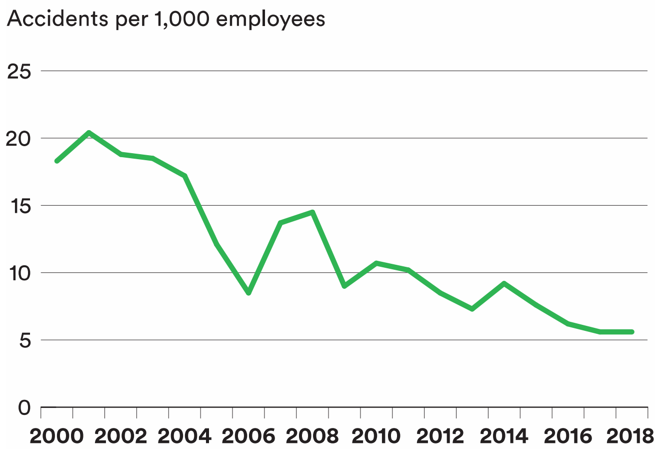
In order to ensure consistently high standards for handling potentially hazardous substances throughout the Group, the necessary processes are being harmonized. A corresponding project was launched in 2018 and will be implemented in several stages over the coming years. The objective is the safe and proper use of hazardous substances and chemicals based on standardized rules. In addition, numerous measures were taken during the reporting year to maintain and further develop the Lenzing Group's high standards for safeguarding machines and equipment.

The Lenzing Group worked closely with the Institution of Occupational Safety and Health (IOSH) in order to tailor the well-known health and safety training of the British organization to Lenzing's requirements and to translate it into the different languages of the locations. "Leading Safely" courses have been held at several of the Lenzing Group's locations. During the reporting year, the first "Working Safely" courses started. These two courses address both the operating staff and the managerial staff in the company.

Efficient safety management requires the complete reporting and documentation of all relevant events (accidents, near-accidents and observations). In connection with the continuous improvement of safety standards, it is therefore especially important to include local employees in the standardized "SHEARS" reporting platform and create awareness for risks

The accident rate was maintained unchanged in comparison with the 2017 financial year despite the extensive investment activity and related higher risk of injuries as well as the increased deployment of staff.

Development of the accident rate



Health

The Lenzing Group's health management system is based on a concept that is tailored to the specific health and social systems in the countries where Lenzing is active and provides a conceptual framework for targeted investments in healthcare. The company has established industry-specific healthcare standards at all its sites, which include routine health checks for all employees and regular training in the correct handling of chemicals.

A preventive healthcare program called "Heartbeat for Health" was launched throughout the Group in 2018. Another health focus was on the topic of first aid during the reporting year. To ensure that all employees know the basic measures to save vital functions, an awareness week under the motto "Saving Lives – At Work and At Home" was held at all locations of the Lenzing Group in September.

Risk Report

Current risk environment

A detailed analysis of the developments in the global fiber market during the reporting year and the related risks for the Lenzing Group is provided in the section "General Market Environment".

The economic environment is heavily influenced by growing geopolitical tensions, especially between the major trading blocks. First tendencies of slowing economic growth have already been showing for 2019. Developments such as a possible no-deal Brexit and the politically charged topic of migration represent additional elements of uncertainty for the economy.

The global fiber market remains under pressure due to the increasing fiber capacities in the Asian market, in particular in the standard fiber segment. The Lenzing Group therefore anticipates persisting high price pressure for standard fibers in the 2019 financial year. The sCore TEN strategy aims to mitigate the impact of these developments.

Based on the steady expansion of the Lenzing Group's existing pulp capacity and sufficient available supplies on the global market, pulp supplies are considered secured for 2019. The Lenzing Group is expanding the volume of pulp at the locations in Lenzing and Paskov and is working on the basic engineering for the construction of a new plant in Brazil with an annual pulp capacity of 450,000 tons.

Raw material prices for chemicals, in particular for caustic soda and carbon disulfide, were at a high level globally in the past months.

On the currency side, the US dollar gained 6 percent against the euro compared with the previous year. The Chinese yuan remained largely stable. 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 2019 due to the very stable financial structure.

There were no significant damage incidents involving operating, environmental or product liability risks with a high damage potential in the 2018 financial year.

The Lenzing Group increased its production volume in 2018 with the expansion of its lyocell capacity in Heiligenkreuz. The temporary stop of the lyocell capacity expansion project in Mobile increased the risk profile on the sales side for the coming years. The Lenzing Group is now focusing on the construction of a lyocell fiber plant in Thailand.

Risk management

The main purpose of risk management in the Lenzing Group is to protect and strengthen the company by correctly and transparently assessing the financial, operational and strategic risks. The Management Board of the Lenzing Group, together with the heads of the reporting departments, carries out extensive coordinating and controlling operations within the framework of a comprehensive integrated internal control system that covers all locations. The timely identification, evaluation and reaction to strategic and operational risks are essential components of these management activities and make a significant value contribution to the company. This approach is based on a standardized, group-wide monthly reporting system and the ongoing monitoring of strategic and operational plans.

Lenzing has implemented a corporate risk management system for the central coordination and monitoring of risk management processes throughout the Group. This system identifies and analyzes the main risks, together with input from the operating units, and communicates the results to the Management Board and top management. Risk management also includes the proactive analysis of potential events or near-misses. Further tasks include actively controlling risks and evaluating appropriate measures with the affected business areas.

Risk management strategy

Lenzing pursues a multi-step approach to risk management:

Risk analysis (based on the COSO®[1] Framework)

The Central Risk Management Department carries out semiannual risk assessments at all production locations and functional units. The major risks are identified and evaluated in accordance with the international COSO® standards. Only the risks not reported on the statement of financial position or the income statement are presented, whereby the financial effects of a possible damage event on Group EBITDA and liquid funds are included. The risks are simulated against the EBITDA plan and a range of possible budget variances is developed. Lenzing uses a simulation software which also calculates other KPIs such as value at risk, risk-adjusted ROCE and a sensitivity analysis.

[1] Committee of Sponsoring Organizations of the Treadway Commission

Risk reduction
The objective is to minimize, avoid or, in certain cases, intentionally accept risks based on appropriate measures. The actions taken depend on the expected impact of the specific risk on the Group.

Responsibility
The individual risks are assigned on the basis of the existing organization matrix. Each risk is allocated to a specific risk owner.

Risk monitoring/control
The effectiveness of the risk management system used by the Lenzing Group was evaluated by KPMG Austria GmbH in accordance with Rule 83 of the Austrian Corporate Governance Code as part of a special audit in the reporting year.

Reporting
The main risks are presented in detail in a report and discussed with the Management Board and the Audit Committee.

Market environment risks

Market risk
As an international corporation, the Lenzing Group is exposed to a variety of macroeconomic risks. The development of the prices and volumes for textile fibers and, to a lesser extent, also for nonwoven fibers is cyclical because it is dependent on global and regional economic conditions. Lenzing fibers compete with cotton and synthetic fibers on many submarkets. Consequently, the price trends for these products also have an influence on the development of revenue and sales volumes of Lenzing fibers.

The Lenzing Group counteracts this risk by steadily increasing the share of specialty fibers in its global product portfolio and a consistent sustainability and innovation strategy. The goal is to raise the share of specialty fibers to 50 percent by 2020 and to further expand Lenzing's role as a leading company in sustainability in the fiber business. High quality standards combined with added-value services in the standard fiber business are also designed to safeguard Lenzing's leading market position.

The Lenzing Group relies on a strong international market presence, especially in Asia. This market presence is strengthened by an excellent regional customer service and support network as well as high customer-oriented product diversification. A new innovation center was opened in Indonesia during the reporting year.

Sales risk
A comparatively small number of major customers are responsible for roughly one-half of the Lenzing Group's fiber revenue. A decline in sales to these major customers or the loss of one or more major customers without an immediate replacement poses a certain risk. The company counteracts this risk with its global presence and the continuous broadening of its client base and sales segments. Possible default on trade receivables is covered by strict receivables management and global credit insurance.

Innovation and competition risk
The Lenzing Group is exposed to the risk of losing its position on the fiber market due to increased competition or new technologies developed by competitors. The Lenzing Group could lose its market position, above all, if it were no longer able to offer its products at competitive prices, if its products did not comply with customer specifications or quality standards or if its customer service did not meet customer expectations. Lenzing counteracts this risk with research and development activities that exceed the average for the industry and by a high level of product innovation and steady cost optimization. The Lenzing Group – similar to other producers – is exposed to the risk that acceptable or even superior alternative products may become available and at more favorable prices than wood-based cellulosic fibers.

Laws and regulations
The Lenzing Group is confronted with different legal systems and regulations in its global markets. A change in laws or other regulations (e.g. import duties, environmental requirements etc.) as well as the stricter interpretation of existing laws could result in significant additional costs or competitive disadvantages. The Lenzing Group has installed a Legal Management, Intellectual Property and Compliance Department, which carries out consulting services and risk assessments in these areas.

In response to the far-reaching implications of global warming for society and the ecosystems, governments or other stakeholders may introduce stricter laws and regulations. These could include the implementation of higher prices for CO^2 allowances or new taxes on CO^2 emissions. If such measures were to be implemented only regionally, this could have a negative impact on the business success of the Lenzing Group.

Brand risk
Lack of or incomplete protection of intellectual property and brands for products made by Lenzing represents a risk. The Lenzing Group controls this risk through departments for brand and intellectual property protection. Moreover, the new branding strategy and integrated processes are also designed to counter this risk.

Climate change and marine pollution
The awareness of problems related to climate change such as rising sea levels and the increasing frequency and severity of natural disasters is growing among people as well as throughout the fiber industry. The pollution of the oceans with plastic waste and microplastics also represents a growing global risk.

The Lenzing Group has recognized the far-reaching effects of climate change on society and the ecosystems and offers a sustainable alternative with its innovative and biodegradable products. Lenzing continuously works on setting clear sustainability goals and looks for ways to increase its energy efficiency and for opportunities to use renewable energy sources or sources with lower CO^2 emissions.

Operational risks

Procurement risk (incl. pulp supply)

The Lenzing Group purchases large volumes of raw materials (wood, pulp, chemicals) and energy for the manufacture of its cellulosic fibers. Fiber production and the related margins are exposed to risks arising from the availability and prices of these raw materials, which can fluctuate to the disadvantage of the Lenzing Group. These risks are countered through the careful selection of suppliers based on price, reliability and quality criteria, EcoVadis-based sustainability assessments as well as the creation of long-standing, stable supplier-customer partnerships, in some cases with multi-year supply agreements. In addition, all suppliers must comply with Lenzing's Global Supplier Code of Conduct. Nevertheless, there is a risk of violations of the Code which may have a negative impact on the Lenzing Group and its stakeholders along the value chain. Supply chain risks may also result from disruptions caused by natural disasters.

Lenzing has also entered into long-term contractual relationships with several raw material suppliers and service partners. These agreements require Lenzing to purchase specified quantities of raw materials at standardized terms and conditions, which may also include price adjustment clauses. Lenzing may therefore not be able to adjust prices, purchase volumes or other contract conditions over the short term in order to react to changes on its markets.

The sCore TEN strategy includes an increased focus on backwards integration through the expansion of the Group's own cellulose production.

Operating risks, environmental risks and risks relating to climate change

The production of wood-based cellulosic fibers involves complex chemical and physical processes which cause certain environmental risks. These risks are effectively controlled through proactive and sustainable environmental management efforts, closed production cycles and the continuous monitoring of emissions based on state-of-the-art production technologies. Lenzing continuously works on increasing safety and environmental standards through voluntary references such as the EU Ecolabel. Since the Lenzing Group has operated production facilities at several locations for decades, risks arising from environmental damage in earlier periods cannot be completely excluded.

Although the Lenzing Group has set very high technological and safety standards for the construction, operation and maintenance of its production sites, the risk of breakdowns, disruptions and accidents cannot be completely excluded. These types of disruptions can also be caused by external factors over which Lenzing has no control. It is impossible to provide direct protection against certain natural hazards (e.g. cyclones, earthquakes, floods). Moreover, there is a risk that personal injury, material and environmental damage, both within and outside the production facilities, could result in substantial claims for damages and even criminal liability.

The Lenzing Group's production activities are concentrated at a small number of locations. Any disruption at one of these facilities has a negative impact on the company's business operations.

Product liability risk

The Lenzing Group markets and sells its products and services to customers throughout the world. These business activities can result in damage to customers or along the value chain through the delivery of a defective product by Lenzing or one of its subsidiaries. Moreover, product safety can be jeopardized by pollution, which may cause problems in the value chain, for example potential health implications for employees or customers. Lenzing is also subject to the prevailing local laws in the countries where its products are delivered and is exposed to liability risk, which is considered to be significant especially in the USA. This risk is countered by a special department which focuses exclusively on customers' problems in processing Lenzing products and on dealing with complaints. Appropriate precautions in the production process and regular quality inspections have been implemented. Third party damages caused by Lenzing are covered by a global liability insurance program.

Financial risks

For a detailed description of financial risks refer to notes 34 to 39 of the Notes to the Consolidated Financial Statements.

Tax risk

The production sites of the Lenzing Group are subject to local tax regulations in their respective countries and are required to pay corporate income taxes as well as other taxes. Changes in tax legislation or different interpretations of prevailing regulations could lead to subsequent tax liabilities.

Compliance

Increasingly strict international codes of conduct and legal regulations are creating additional demands on Lenzing for compliance and monitoring. Insufficient controls in business processes or a lack of adequate documentation could result in violations of relevant statutory provisions or pose a significant risk to Lenzing's reputation and business success as a result of compliance violations. Lenzing addresses this risk, among other things, by setting up a revised group-wide compliance organization, the corporate code of conduct, an anti-bribery and corruption directive, and an antitrust directive. Further information on compliance is provided in the Corporate Governance Report.

Personnel risks

Personnel risks may arise through the fluctuation of employees in key positions as well as the recruiting of new staff at all global sites. The Lenzing Group has established a Human Resources Department which operates internationally and coordinates personnel planning with the respective sites. It is responsible for the central management and monitoring of all personnel-related issues, including the organization of global management and training programs for potential executives.

At the production facilities, employees of the Lenzing Group as well as for workers and employees of third companies are exposed to a risk of injury. Lenzing's "Heartbeat for Health & Safety" program accounts for this risk and includes a strategic approach to risk reduction, precautionary measures and extensive training. More information on this topic is provided in the section "Safety, Health and Environment".

Risks related to major projects

The Lenzing Group continuously carries out numerous capacity expansion projects, which include plans for a new dissolving wood pulp plant in Brazil and a new lyocell plant in Thailand. These types of major projects carry an inherent risk of cost and schedule overruns. Lenzing counters these risks with strict planning and project management as well as continuous cost controls. In the reporting year, the expansion project in Mobile was temporarily mothballed due to an increased probability of higher trade tariffs and potential construction cost overruns due to the buoyant US labor market. The focus regarding the expansion of lyocell capacities has been redirected to the above-mentioned project in Thailand.

Risks from an external perspective and the perspective of other stakeholders

As a globally operating company, the Lenzing Group is aware of its social responsibility. The risks described in the risk report refer primarily to the effect on the assets and results of the Lenzing Group. However, as one of the sustainability leaders in the industry, the Lenzing Group seeks a balance between the needs of society, the environment and the economy. The company takes on this responsibility, particularly with respect to potential effects of its operations on neighbors of the production sites and vis-à-vis society as a whole. Active stakeholder work to mitigate risks (partnership for systemic change) and to create additional benefits for people and the environment is a clear goal of the Lenzing Group's innovation and operating activities. They include joint activities with NGOs such as Canopy. In cooperation with its partners, the Lenzing Group is working on understanding the risks for stakeholders and on finding solutions to mitigate these risks. This work is based on open communication and transparency as well as continuous improvement of technologies and sustainable practices.

Report on the Key Elements of the Internal Control System (Section 243a Para. 2 of the Austrian Commercial Code)

The internal control system implemented by the Lenzing Group is designed to safeguard the reliability of financial reporting, ensure compliance with legal regulations and corporate guidelines and present the risks not reported on the consolidated statement of financial position or the consolidated income statement.

The Lenzing Group's organizational structure and processes form the main basis for the control environment and the internal control system. The organizational structure includes the assignment of specific authority and responsibilities to the various management and hierarchy levels at the Austrian sites and in all international subsidiaries. Key group functions are centralized in corporate centers which reflect Lenzing's global market presence as well as its decentralized business and site structure. The respective management is responsible for coordinating and monitoring business operations at the national level.

Lenzing's process organization is characterized by a well-developed and comprehensive set of guidelines which provide an effective foundation for a strong control environment and control system. Important group-wide approval processes and responsibilities are defined in the Lenzing Group Mandates. The management of each business area or department is responsible for monitoring compliance with the respective regulations and controls.

Financial Reporting

The Global Accounting & Tax Management Department has central responsibility for financial reporting, the internal control system related to accounting, and tax issues in the Lenzing Group.

The goal of the control system related to accounting is to ensure the uniform application of legal standards, generally accepted accounting principles and the accounting regulations specified in the Austrian Commercial Code. This system also covers the consolidated accounting process and thereby guarantees compliance with the rules defined by International Financial Reporting Standards (IFRS) and internal accounting guidelines, in particular the group accounting manual and schedules. The internal control system related to accounting is designed to safeguard the timely, uniform and accurate recording of all business processes and transactions. In this way, it supports the preparation of reliable data and reports on the financial position and financial performance of the Lenzing Group.

The subsidiaries included in the consolidated financial statements prepare financial statements in accordance with both local laws and IFRS standards at the company level in a timely manner. They are responsible for the decentralized implementation of existing rules and are supported and monitored in these activities by the Global Accounting & Tax Management Department. The Audit Committee of the Supervisory Board is integrated in the control system related to accounting. In addition, the annual financial statements are audited by external certified public accountants and the half-year financial statements are reviewed on a voluntary basis.

The Global Treasury Department, and above all the payments unit, is classified as a highly sensitive area because of its direct access to the Group's assets. The accompanying increased need for security is reflected in comprehensive regulations and instructions for all relevant processes. These clear guidelines require the strict application of the four-eyes principle for the settlement of transactions as well as regular reporting.

The Internal Audit Department is responsible for monitoring the application of and compliance with controls in business operations.

Compliance with legal regulations and internal guidelines

The Legal, Intellectual Property & Compliance Department of the Lenzing Group is responsible for legal management. This centralized function handles legal matters in the Lenzing Group, in particular issues which do not involve standard business processes.

This department is also responsible for the Compliance Management System (CMS). Together with the Management Board, it oversees group-wide compliance with legal regulations and internal guidelines as well as the prevention of legal violations and improper behavior. The Legal, Intellectual Property & Compliance Department reports directly to the Chief Executive Officer of the Lenzing Group. The CMS is responsible for the following: the identification of compliance-relevant risks, the analysis of deviations from the norm and, if necessary, the implementation of risk-minimizing measures, the development of compliance-relevant guidelines, worldwide employee training and regular reporting to the Management Board and Supervisory Board or Audit Committee.

The Lenzing Group complies with the rules defined by the Austrian Code of Corporate Governance (ACCG) and prepares a Corporate Governance Report which is published as part of the Annual Report. The Corporate Governance Report requires the participation of the Supervisory Board, which delegates the responsibility for monitoring compliance with the related obligations to the Audit Committee.

The Internal Audit Department is independent of all other organizational units and business processes and reports directly to the Chief Financial Officer. It evaluates whether the Group's resources are used legally, economically, efficiently and correctly in the interest of sustainable development. The activities of Internal Audit are based on the international standards published by the Institute of Internal Auditors (IIA). Regular reporting to the Management Board and the Audit Committee ensure the proper functioning of the internal control system.

Depiction of risks outside the statement of financial position and income statement

The Risk Management Department is responsible for the depiction of risks which are not reported on the statement of financial position or income statement and prepares a semi-annual risk report for this purpose. The major risks are also discussed in the Annual Report. The risk report is based on the international COSO® standards (Committee of Sponsoring Organizations of the Treadway Commission).

Shareholder structure and information on capital

Share capital and shareholder structure

The share capital of Lenzing AG totaled EUR 27,574,071.43 as of December 31, 2018 and is divided into 26,550,000 no-par-value shares. The B&C Group is the majority shareholder with an investment in voting rights of 50 percent plus two shares. Oberbank holds 3.8 percent of the shares. The free float amounts to 46.2 percent and is held by Austrian and international investors. The Lenzing Group holds no treasury shares.

Position of shareholders

Each no-par-value share grants the shareholder one vote at the Lenzing AG Annual General Meeting. Unless provided otherwise by mandatory provisions of the Austrian Stock Corporation Act, the Annual General Meeting passes resolutions by a simple majority of the votes cast and – if a majority of the share capital is required – by a simple majority of the share capital represented at the Annual General Meeting.

Lenzing AG has no shares with special control rights. A resolution passed by the Annual General Meeting on April 12, 2018 authorized the Management Board, subject to the consent of the Supervisory Board, to purchase treasury shares of the company for a period of 30 months starting on the day of the resolution in accordance with Section 65 Para. 1 no. 8 and Para. 1a and 1b of the Austrian Stock Corporation Act. The treasury shares acquired by the company may not exceed ten percent of the company's share capital. The equivalent to be paid for the repurchase must be within a range of plus/minus 25 percent of the weighted average closing price of the last 20 stock exchange days prior to the start of the corresponding repurchasing program of the Lenzing share.

The Management Board was also authorized, subject to the consent of the Supervisory Board, to withdraw repurchased treasury shares without any further resolution by the Annual General Meeting (including the authorization of the Supervisory Board to adopt changes to the articles of association resulting from withdrawing the shares), or to resell them and to determine the conditions of sale. This authorization can be exercised in full, in several parts and in pursuit of one or several objectives by the company, by a subsidiary (Section 189a no. 7 of the Austrian Commercial Code) or by third parties for the company's account.

In addition, the Management Board was authorized for a period of five years from the date of the resolution to adopt the sale of treasury shares, subject to the consent of the Supervisory Board, 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.

A resolution passed by the Annual General Meeting on April 12, 2018 authorized the Management Board, subject to the consent of the Supervisory Board, to increase share capital by up to EUR 13,787,034.68 through the issue of up to 13,274,999 no-par-value bearer shares – also in tranches – in exchange for cash and/or contributions in kind, within five years from the entry the changes in the articles of association in the commercial register and to determine the issue price and other issue conditions ("authorized capital"). This authorized capital was recorded in the commercial register on May 23, 2018.

The statutory subscription right may be granted to shareholders in such a way that the capital increase is underwritten by a bank or a consortium of banks with the obligation to offer it to shareholders in accordance with their subscription right (indirect subscription right).

The Management Board was also authorized, subject to the consent of the Supervisory Board, to exclude shareholders' subscription rights in the event of a capital increase from the authorized capital in whole or in part (i) if the capital increase in exchange for contributions in kind is carried out for the purpose of acquiring companies, parts of companies, operations, parts of operations, participations in companies or other assets connected with an acquisition project, (ii) to satisfy an over-allotment option (greenshoe) or (iii) to compensate for fractional amounts.

In addition, the Management Board was authorized by a resolution of the Annual General Meeting on April 12, 2018 to issue, subject to the consent of the Supervisory Board, convertible bonds in one or several tranches that grant or provide for the subscription or conversion right or a subscription or conversion obligation for up to 13,274,999 shares of the company. They can be serviced through the conditional capital to be adopted and/or treasury shares. The issue price and issue conditions shall be determined by the Management Board, subject to the consent of the Supervisory Board; the issue amount and the exchange ratio shall be determined in accordance with recognized methods of financial mathematics and the price of the Company's shares in a recognized pricing procedure. This authorization is valid until April 12, 2023.

The statutory subscription right may be granted to shareholders in such a way that the convertible bonds are taken over by a bank or a consortium of banks with the obligation to offer them to the shareholders in accordance with their subscription right (indirect subscription right).

The Management Board was authorized, subject to the consent of the Supervisory Board, to exclude the subscription right of shareholders when issuing convertible bonds in whole or in part (i) if the convertible bonds in exchange for contributions in kind are issued for the purpose of acquiring companies, parts of companies, operations, parts of operations, participations in companies or other assets relating to an acquisition project, or (ii) for the compensation of fractional amounts resulting from the subscription ratio.

The Management Board was also authorized, subject to the approval of the Supervisory Board, to exclude the subscription right for convertible bonds in whole or in part, provided that the Management Board, after due examination, comes to the conclusion that the issue price of the convertible bonds at the time of the final determination of the issue price is not less than the hypothetical market value determined according to recognized, in particular financial-mathematical methods and that the conversion price or subscription price (issue price) of the subscription shares is determined by taking into account recognized methods of financial mathematics and the price of the company's ordinary shares in a recognized pricing procedure, and is not lower than the stock market price of the company's shares during the last 20 trading days prior to the date of announcement of the issue of convertible bonds.

The Management Board did not make use of the existing authorizations during the 2018 financial year.

Detailed information on the Annual General Meeting, proposals for resolutions and the results of voting are published on the website of Lenzing AG: https://www.lenzing.com/en/investors/shareholders-meeting/2018/.

The 75th Annual General Meeting will be held on April 17, 2019 in the "Kulturzentrum Lenzing", 4860 Lenzing.

Other disclosures in accordance with Section 243a of the Austrian Commercial Code

There are no provisions other than those stipulated by law which cover the appointment or dismissal of members of the Management Board or Supervisory Board. The company has not entered into any significant agreements that would take effect, change or expire in the event of a change in control as the result of a takeover bid. There are no compensation agreements between the company and the members of the Management Board and Supervisory Board or with employees that would take effect in the event of a public takeover offer.

Outlook

The International Monetary Fund expects a slowdown of global economic growth to 3.5 percent in 2019, mainly driven by increasing protectionist tendencies and growing geopolitical tensions. The currency environment in the regions relevant to Lenzing will remain volatile.

Demand on the global fiber markets is still positive. According to preliminary calculations, cotton inventory levels should decline slightly again in 2019. Over the past months, the polyester market recovered from slower growth at the beginning of the reporting year. The price levels for cotton and polyester are expected to remain stable.

Capacity expansions for standard viscose should remain at a similar level as in the 2018 financial year. Despite strong demand, this will result in growing oversupply, which will cause even higher pressure on prices. The Lenzing Group expects the positive development of its specialty fiber business to continue.

Caustic soda prices in Asia have already declined significantly over the past months; however, there are no signs of such a development in Europe yet. Overall, Lenzing does not expect any significant changes for key raw materials that would be relevant to earnings.

Based on the current exchange rates, the Lenzing Group expects its results for 2019 to reach a similar level as in 2018 despite a much tighter market environment for standard viscose.

These developments reassure the Lenzing Group in its chosen corporate strategy sCore TEN. Lenzing is very well positioned in this market environment and will continue its consistent focus on growth with specialty fibers.

Lenzing, March 5, 2019
Lenzing Aktiengesellschaft

The Management Board

Stefan Doboczky
Chief Executive Officer
Chairman of the
Management Board

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

Thomas Obendrauf
Chief Financial Officer
Member of the
Management Board

Heiko Arnold
Chief Technology Officer
Member of the
Management Board

Appendix: 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 IFRS consolidated financial statements of the Lenzing Group and are found in this annual report, above all, in the sections "Selected Indicators of the Lenzing Group" and "Five-Year Overview of the Lenzing Group". The definitions of the indicators are summarized in the glossary to the annual report. The Management Board believes these financial indicators provide useful information on the financial position of the Lenzing Group because they are used internally and are also considered important by external stakeholders (in particular investors, banks and analysts).

EBITDA, EBITDA margin, EBIT and EBIT margin

EBITDA and EBIT are viewed by the Lenzing Group as the benchmarks for the strength of operating earnings and profitability (performance) before and after depreciation and amortization. Due to their significance – also for external stakeholders – these indicators are presented on the consolidated income statement and, in order to provide a comparison of margins, in relation to group revenue (as the EBITDA margin and EBIT margin).

EUR mn	2018	2017	2016	2015	2014
Earnings before interest, tax, depreciation and amortization (EBITDA)	382.0	502.5	428.3	290.1	240.3
/ Revenue	2,176.0	2,259.4	2,134.1	1,976.8	1,864.2
EBITDA margin	**17.6%**	**22.2%**	**20.1%**	**14.7%**	**12.9%**

EUR mn	2018	2017	2016	2015	2014
Earnings before interest and tax (EBIT)	237.6	371.0	296.3	151.1	21.9
/ Revenue	2,176.0	2,259.4	2,134.1	1,976.8	1,864.2
EBIT margin	**10.9%**	**16.4%**	**13.9%**	**7.6%**	**1.2%**

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. This indicator is presented in the consolidated statement of cash flows.

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	2018	2017	2016	2015	2014
Cash flow from operating activities	280.0	271.1	473.4	215.6	218.8
- Cash flow from investing activities	(261.8)	(218.6)	(103.6)	(56.5)	(102.8)
- Net inflow from the sale and disposal of subsidiaries and other business areas	(0.1)	(3.1)	(1.4)	(13.4)	0.0
+ Acquisition of financial assets and investments accounted for using the equity method	8.0	6.5	3.5	4.9	2.3
- Proceeds from the sale/repayment of financial assets	(2.6)	(23.4)	(5.6)	(5.6)	(3.5)
Free cash flow	**23.5**	**32.6**	**366.3**	**145.0**	**114.8**

CAPEX

CAPEX shows the expenditures for intangible assets and property, plant and equipment. It is presented in the consolidated statement of cash flows.

Liquid assets

Liquid assets show the Lenzing Group's ability to meet due payment obligations immediately with available funds. This indicator is also used to calculate other financial ratios (e.g. net financial debt; see below).

EUR mn as at 31.12.	2018	2017	2016	2015	2014
Cash and cash equivalents	243.9	306.5	559.6	347.3	271.8
+ Liquid bills of exchange (in trade receivables)	10.5	9.4	10.8	8.1	8.5
Liquid assets	**254.4**	**315.8**	**570.4**	**355.3**	**280.3**

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 as at 31.12.	2018	2017	2016	2015	2014
Inventories	396.5	340.1	329.4	338.5	344.1
+ Trade receivables	299.6	292.8	277.4	258.9	232.8
- Trade payables	(251.7)	(218.4)	(227.2)	(150.0)	(181.1)
Trading working capital	**444.4**	**414.4**	**379.6**	**447.4**	**395.7**

EUR mn	2018	2017	2016	2015	2014
Latest reported quarterly group revenue (= 4th quarter respectively)	539.8	532.8	555.7	518.0	506.5
x 4 (= annualized group revenue)	2,159.1	2,131.1	2,222.9	2,071.8	2,026.0
Trading working capital to annualized group revenue	**20.6%**	**19.4%**	**17.1%**	**21.6%**	**19.5%**

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 as at 31.12.	2018	2017	2016	2015[1]	2014[1]
Equity	1,533.9	1,507.9	1,368.5	1,198.9	1,034.5
+ Non-current government grants	16.9	18.3	17.0	17.8	22.0
+ Current government grants	8.4	7.9	11.9	8.0	4.6
- Proportional share of deferred taxes on government grants	(6.3)	(6.4)	(7.0)	(6.1)	(6.1)
Adjusted equity	**1,553.0**	**1,527.7**	**1,390.5**	**1,218.6**	**1,054.9**
/ Total assets	2,630.9	2,497.3	2,625.3	2,410.6	2,359.2
Adjusted equity ratio	**59.0%**	**61.2%**	**53.0%**	**50.6%**	**44.7%**

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).

Net financial debt, net financial debt/EBITDA, 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 relation of this indicator to EBITDA shows the number of periods in which the same level of EBITDA must be generated to cover net financial debt. 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 as at 31.12.	2018	2017	2016	2015	2014
Current financial liabilities	166.2	127.3	249.2	172.3	192.7
+ Non-current financial liabilities	307.6	255.3	328.3	510.9	537.0
- Liquid assets	(254.4)	(315.8)	(570.4)	(355.3)	(280.3)
Net financial debt	**219.4**	**66.8**	**7.2**	**327.9**	**449.5**
/ Earnings before interest, tax, depreciation and amortization (EBITDA)	382.0	502.5	428.3	290.1	240.3
Net financial debt / EBITDA	**0.6**	**0.1**	**0.0**	**1.1**	**1.9**

EUR mn as at 31.12.	2018	2017	2016	2015[1]	2014[1]
Net financial debt	219.4	66.8	7.2	327.9	449.5
/ Adjusted equity	1,553.0	1,527.7	1,390.5	1,218.6	1,054.9
Net gearing	**14.1%**	**4.4%**	**0.5%**	**26.9%**	**42.6%**

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).

EUR mn as at 31.12.	2018	2017	2016	2015	2014
Net financial debt	219.4	66.8	7.2	327.9	449.5
+ Provisions for severance payments and pensions	103.4	105.4	108.6	96.5	102.9
Net debt	**322.8**	**172.2**	**115.8**	**424.5**	**552.5**

Return on capital (ROE, ROI and ROCE)

Return on capital employed (ROCE) is the Lenzing Group's benchmark for the yield (return) on the capital employed in the operating business. It is also an important indicator for external stakeholders. Return on capital (ROE) and return on investment (ROI) are profitability indicators which measure the earnings strength of the Lenzing Group.

EUR mn	2018	2017	2016	2015[1]	2014[1]
Earnings before interest and tax (EBIT)	237.6	371.0	296.3	151.1	21.9
- Proportional share of current income tax expense (on EBIT)	(57.8)	(79.2)	(64.1)	(23.8)	(23.4)
Earnings before interest and tax (EBIT) less proportional share of current income tax expense (NOPAT)	**179.8**	**291.8**	**232.2**	**127.4**	**(1.5)**
/ Average capital employed	1,750.3	1,571.8	1,541.0	1,578.7	1,596.1
ROCE (return on capital employed)	**10.3%**	**18.6%**	**15.1%**	**8.1%**	**(0.1)%**
Proportional share of current income tax expense (on EBIT)	(57.8)	(79.2)	(64.1)	(23.8)	(23.4)
Proportional share of other current tax expense	3.5	2.5	3.0	3.4	2.7
Current income tax expense	**(54.3)**	**(76.7)**	**(61.1)**	**(20.3)**	**(20.7)**

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).

EUR mn as at 31.12.	2018	2017	2016	2015[1]	2014[1]
Total assets	2,630.9	2,497.3	2,625.3	2,410.6	2,359.2
- Trade payables	(251.7)	(218.4)	(227.2)	(150.0)	(181.1)
- Non-current puttable non-controlling interests	0.0	(18.0)	(13.0)	(8.3)	(7.6)
- Other non-current liabilities	(4.2)	(3.8)	(3.7)	(3.1)	(7.6)
- Other current liabilities	(46.9)	(38.5)	(92.5)	(85.3)	(90.5)
- Current tax liabilities	(10.4)	(21.6)	(25.7)	(10.6)	(25.2)
- Deferred tax liabilities	(50.4)	(52.7)	(52.9)	(52.9)	(44.8)
- Proportional share of deferred taxes on government grants	(6.3)	(6.4)	(7.0)	(6.1)	(6.1)
- Current provisions	(107.9)	(95.7)	(97.2)	(69.9)	(81.4)
- Non-current provisions	(126.5)	(131.7)	(138.1)	(122.7)	(130.0)
+ Provisions for severance payments and pensions	103.4	105.4	108.6	96.5	102.9
- Cash and cash equivalents	(243.9)	(306.5)	(559.6)	(347.3)	(271.8)
- Investments accounted for using the equity method	(13.4)	(8.4)	(12.7)	(25.6)	(38.0)
- Financial assets	(36.7)	(36.4)	(25.1)	(22.8)	(23.2)
As at 31/12	**1,836.3**	**1,664.4**	**1,479.2**	**1,602.7**	**1,554.7**
As at 01/01	**1,664.4**	**1,479.2**	**1,602.7**	**1,554.7**	**1,637.5**
Average capital employed	**1,750.3**	**1,571.8**	**1,541.0**	**1,578.7**	**1,596.1**

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).

EUR mn as at 31.12.	2018	2017	2016	2015[1]	2014[1]
Adjusted equity 31/12	1,553.0	1,527.7	1,390.5	1,218.6	1,054.9
Adjusted equity 01/01	1,527.7	1,390.5	1,218.6	1,054.9	1,109.6
Average adjusted equity	**1,540.3**	**1,459.1**	**1,304.5**	**1,136.8**	**1,082.3**

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).

EUR mn	2018	2017	2016	2015[1]	2014[1]
Earnings before tax (EBT)	199.1	357.4	294.6	147.4	12.0
/ Average adjusted equity	1,540.3	1,459.1	1,304.5	1,136.8	1,082.3
ROE (return on equity)	**12.9%**	**24.5%**	**22.6%**	**13.0%**	**1.1%**

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).

EUR mn as at 31.12.	2018	2017	2016	2015[1]	2014[1]
Total assets 31/12	2,630.9	2,497.3	2,625.3	2,410.6	2,359.2
Total assets 01/01	2,497.3	2,625.3	2,410.6	2,359.2	2,439.9
Average total assets	**2,564.1**	**2,561.3**	**2,518.0**	**2,384.9**	**2,399.5**

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).

EUR mn	2018	2017	2016	2015[1]	2014[1]
Earnings before interest and tax (EBIT)	237.6	371.0	296.3	151.1	21.9
/ Average total assets	2,564.1	2,561.3	2,518.0	2,384.9	2,399.5
ROI (return on investment)	**9.3%**	**14.5%**	**11.8%**	**6.3%**	**0.9%**

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).

Corporate Governance Report 2018

Corporate Governance Report 2018

The Austrian Code of Corporate Governance (ACCG) provides stock companies in Austria with a framework for corporate management and control. This framework includes internationally recognized standards for good corporate governance as well as relevant regulations of Austrian stock corporation law.

The goal of the code is to ensure the responsible management and control of companies and corporate groups based on the sustainable and long-term creation of value. It is intended to create a high degree of transparency for all of the company's stakeholders.

Declaration of Commitment

Lenzing AG respects the ACCG and, for the first time in 2010, committed itself to compliance with the documented provisions. The Supervisory Board also unanimously resolved to fully adhere to the ACCG. The current version of the code (January 2018) is available on the Internet under www.corporate-governance.at. In accordance with L-Rule 60 of the ACCG, Lenzing AG is required to prepare and publish a Corporate Governance Report. The Corporate Governance Report of Lenzing AG also represents the consolidated Corporate Governance Report for the Lenzing Group.

This Corporate Governance Report is published on the website of Lenzing AG in accordance with C-Rule 61 of the ACCG (https://www.lenzing.com/en/investors/corporate-governance/evaluations-reports/).

The Corporate Bodies of Lenzing AG

The division of responsibilities among the members of Lenzing's Management Board during the 2018 financial year was as follows:

Management Board

Stefan Doboczky (born 1967)
Chairman of the Management Board, Chief Executive Officer
First appointed: June 1, 2015
Current term of office ends: December 31, 2022

Responsibilities: Region Europe and Americas, Region AMEA, Region North Asia, Global Pulp & Wood, Global HR, Global R&D, Corporate Strategy & M&A, Legal IP & Compliance, Corporate Communications & Investor Relations, Pulp Expansion

Supervisory Board functions in other companies: none

Management and monitoring functions in major subsidiaries:
none

Robert van de Kerkhof (born 1964)
Member of the Management Board, Chief Commercial Officer
First appointed: May 1, 2014
Current term of office ends: December 31, 2019
(extended to December 31, 2023 as of January 3, 2019)

Responsibilities: Global Business Management Textiles, Nonwovens and New Business Areas, Corporate Sustainability, Global Brand Management, Global Supply Chain, Commercial Innovation

Supervisory Board functions in other companies: none

Management and monitoring functions in major subsidiaries:
none

Thomas Obendrauf (born 1970)
Member of the Management Board, Chief Financial Officer
First appointed: March 1, 2016
Current term of office ends: February 28, 2019
(extended to June 30, 2022 as of January 3, 2019)

Responsibilities: Global Accounting & Tax Management, Global Controlling, Global Treasury, Finance AMEA, Finance North Asia, Finance Europe and Americas, Finance Pulp & Wood, Global Purchasing, Global Process & Information Technology, Internal Audit & Risk Management

Supervisory Board functions in other companies: none

Management and monitoring functions in major subsidiaries:
Lenzing (Nanjing) Fibers Co., Ltd., Biocel Paskov a.s.

Heiko Arnold (born 1966)
Member of the Management Board, Chief Technology Officer
First appointed: May 1, 2017
Current term of office ends: April 30, 2020

Responsibilities: Technology, Global Engineering, Global SHE, Global Quality Management & Technical Customer Service, Enterprise Excellence, Special Projects, Lenzing Technik

Supervisory Board functions in other companies: none

Management and monitoring functions in major subsidiaries:
PT. South Pacific Viscose, Lenzing (Nanjing) Fibers Co., Ltd.

The Management Board directs the business operations of Lenzing AG in accordance with the applicable legal regulations, the Articles of Association and the internal rules of procedure for the Management Board. The distribution of responsibilities among the individual members of the Management Board is based on the organizational plan specified in the internal rules of procedure, which also regulates the cooperation between the Management Board members. Furthermore, the Management Board is required to comply in full with the rules stated in the Austrian Code of Corporate Governance.

Supervisory Board

Composition

Hanno M. Bästlein (born 1963)
First appointed: April 28, 2014
Since April 22, 2015: Chairman
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2021 financial year.

Supervisory Board functions in other companies: AMAG Austria Metall AG, VA Intertrading Aktiengesellschaft (Chairman), B&C Industrieholding GmbH, B&C LAG Holding GmbH

Christoph Kollatz (born 1960)
First appointed: April 12, 2018
Since April 12, 2018: Deputy Chairman
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2020 financial year.

Supervisory Board functions in other companies: Semperit AG Holding (Chairman)

Veit Sorger (born 1942)
First appointed: June 4, 2004
Since March 29, 2011: Deputy Chairman
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2020 financial year.

Supervisory Board functions in other companies: Mondi AG (Chairman), Constantia Industries AG (Deputy Chairman), Binder+Co AG, GrECo International Holding AG

Helmut Bernkopf (born 1967)
First appointed: April 23, 2009
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2018 financial year.

Supervisory Board functions in other companies: Oesterreichische Entwicklungsbank AG (Chairman), OeKB CSD GmbH (Deputy Chairman), "Österreichischer Exportfonds" GmbH (Chairman) until July 27, 2018, Acredia Versicherung AG, OeKB EH Beteiligungs- und Management AG

Peter Edelmann (born 1959)[1]
First appointed: April 12, 2018
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2020 financial year.

Supervisory Board functions in other companies: Orcan Energy AG, B&C Industrieholding GmbH, B&C LAG Holding GmbH

Felix Fremerey (born 1961)
First appointed: April 12, 2018
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2018 financial year.

Supervisory Board functions in other companies: Semperit AG Holding (dormant Supervisory Board mandate)

Franz Gasselsberger (born 1959)
First appointed: April 24, 2013
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2019 financial year.

Supervisory Board functions in other companies: Bank für Tirol und Vorarlberg Aktiengesellschaft (Chairman), BKS Bank AG, voestalpine AG, AMAG Austria Metall AG

Patrick Prügger (born 1975)
First appointed: March 29, 2011
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2019 financial year.

Supervisory Board functions in other companies: Semperit AG Holding until April 25, 2018, AMAG Austria Metall AG

Astrid Skala-Kuhmann (born 1953)
First appointed: April 19, 2012
Current term of office ends at the Annual General Meeting which will pass resolutions on the 2021 financial year.

Supervisory Board functions in other companies: Semperit AG Holding, B&C Industrieholding GmbH, B&C LAG Holding GmbH

Felix Strohbichler (born 1974)
First appointed: April 22, 2015Since April 22, 2015: Deputy Chairman
Felix Strohbichler resigned from the Supervisory Board on April 12, 2018.

Supervisory Board functions in other companies: Semperit AG Holding until April 25, 2018

Josef Krenner (born 1952)
First appointed: April 23, 2009
Josef Krenner resigned from the Supervisory Board on April 12, 2018.

Supervisory Board functions in other companies: B&C Industrieholding GmbH, AMAG Austria Metall AG (Chairman)

1) Peter Edelmann did not personally participate in more than half of the Supervisory Board meetings during the reporting year. However, he was informed about the business development and important transactions and measures prior to these meetings. He exercised his voting right by granting proxy votes.

Corporate Governance Report 2018

Supervisory Board members designated by the Works Council:

Helmut Kirchmair (born 1968)
First appointed in 2015

Georg Liftinger (born 1961)
First appointed in 2008

Daniela Födinger (born 1964)
First appointed in 2014

Johann Schernberger (born 1964)
First appointed in 2001

Herbert Brauneis (born 1987)
First appointed in 2018

Independence (C-Rules 53 and 54 ACCG)
The Supervisory Board has adopted the guidelines for the independence of its members pursuant to Appendix 1 of the ACCG.

All members of the Supervisory Board have declared themselves to be independent of the company and the Management Board.

In accordance with C-Rule 54 of the ACCG, the Supervisory Board members Veit Sorger, Helmut Bernkopf and Franz Gasselsberger declared that they were neither shareholders with a stake of more than 10 percent in the company nor did they represent the interests of such shareholders during the 2018 financial year.

Working procedures of the Supervisory Board

In order to fulfill its responsibility to monitor the work of the Management Board, the Supervisory Board of Lenzing AG holds meetings at least once each quarter. Five Supervisory Board meetings were held during the reporting year (C-Rule 36). The Supervisory Board was informed by the Management Board about the business development as well as major transactions and measures. The Supervisory Board supervised the work of the Management Board and provided advice regarding crucial strategic decisions. Central topics of the meetings included the business development, the strategic development of the Group, ongoing and planned expansion projects, focal points of research and development, personnel measures, financing measures as well as the discussion and approval of the budget for the 2019 financial year.

The Supervisory Board of Lenzing AG had five committees in 2018 (C-Rules 34 and 39 of the ACCG):

Audit Committee
The Audit Committee carries out the responsibilities defined by Section 92 Para. 4a of the Austrian Stock Corporation Act. Accordingly, it is responsible, above all, for monitoring the accounting process and making recommendations or suggestions to ensure its reliability. This committee also oversees the effectiveness of the internal control system, internal audit and risk management. It supervises the audit of the annual and consolidated financial statements, examines and monitors the independence of the auditor and approves and controls non-audit services. The Audit Committee also examines the annual financial statements and prepares their approval by the full Supervisory Board, evaluates the Management Board's proposal for the distribution of profits, the Management Report and the Corporate Governance Report. The Chairman of the Audit Committee defines the reciprocal communication between the auditor and the Audit Committee (C-Rule 81a of the ACCG). The committee is required to report to the Supervisory Board on its activities. The Audit Committee met three times in 2018. As in the previous years, the meetings focused, in particular, on compliance, the implementation of the internal audit schedule and the Risk Report.

Members: Patrick Prügger (Chairman, financial expert), Hanno M. Bästlein, Felix Strohbichler (resigned on April 12, 2018), Franz Gasselsberger (since April 12, 2018), Christoph Kollatz (since April 12, 2018), Johann Schernberger, Georg Liftinger

Nomination Committee
The Supervisory Board has established a Nomination Committee. It makes recommendations to the Supervisory Board for appointments to fill vacant positions on the Management Board and deals with issues related to succession planning. The committee's activities in 2018 concentrated on succession planning and personnel development as well as the reappointment of Thomas Obendrauf and Robert van de Kerkhof. Recommendations were also made to the Annual General Meeting for appointments to the Supervisory Board. The Nomination Committee met three times in 2018.

Members: Hanno M. Bästlein (Chairman), Veit Sorger, Patrick Prügger (until April 12, 2018), Astrid Skala-Kuhmann, Peter Edelmann (since April 12, 2018), Johann Schernberger, Georg Liftinger

Remuneration Committee
The Supervisory Board has established a Remuneration Committee. It deals with the terms and conditions of the employment contracts with the members of the Management Board, ensures compliance with C-Rules 27, 27a and 28 of the ACCG and reviews the remuneration policy for the Management Board members at regular intervals. The three meetings held by the Remuneration Committee in 2018 focused, in particular, on evaluating the performance of the Management Board and the targets for 2018 as well as general remuneration issues relating to the Management Board. The committee also negotiated, approved and finalized the employment contracts with Thomas Obendrauf and Robert van de Kerkhof on behalf of Lenzing AG.

Members: Hanno M. Bästlein (Chairman), Veit Sorger, Patrick Prügger (until April 12, 2018), Peter Edelmann (since April 12, 2018)

Strategy Committee
The Supervisory Board has established a Strategy Committee. It is responsible for reviewing the strategic positioning of the company and monitoring the implementation of the corporate strategy. In

2018 the Management Board discussed strategic options for the expansion of cellulose and fiber production capacity, issues related to Lenzing's market positioning and the further development of the sCore TEN strategy with the Strategy Committee. Two meetings were held in 2018.

Members: Hanno M. Bästlein (Chairman), Astrid Skala-Kuhmann, Veit Sorger, Patrick Prügger, Peter Edelmann (since April 12, 2018), Christoph Kollatz (since April 12, 2018) Johann Schernberger, Georg Liftinger

Committee for Urgent Matters
The Supervisory Board has formed a committee to deal with urgent matters. It is authorized to make decisions in particularly urgent cases on transactions which require the approval of the Supervisory Board. This committee did not meet in 2018.

Members: Hanno M. Bästlein (Chairman), Patrick Prügger (until April 12, 2018), Christoph Kollatz (since April 12, 2018), Johann Schernberger

Cooperation between the Management Board and Supervisory Board

The Management Board reports to the Supervisory Board on fundamental issues relating to future business policies and the outlook for the financial position and financial performance of Lenzing AG and the group companies. In addition, the Management Board provides the Supervisory Board with regular information on the development of business and the position of the company and the Group in comparison to forecasts, taking future developments into account. In a separate strategy meeting, the Management Board and Supervisory Board also discuss the long-term growth objectives of the Lenzing Group.

Self-evaluation by the Supervisory Board

In the 2018 financial year, the Supervisory Board carried out a self-evaluation as required by C-Rule 36 of the ACCG in the form of a questionnaire, which focused on the control function of the Supervisory Board over the Management Board and compliance with the obligations of the Management Board to provide information to the Supervisory Board. The result of the self-evaluation shows that the activities of the Supervisory Board of Lenzing AG are rated as good overall. The Supervisory Board has acted on individual suggestions from the self-evaluation process. As a result, measures designed to ensure efficiency improvements in the activities of the Supervisory Board have been derived.

Principles of the Remuneration System for the Management Board and Supervisory Board (C-Rule 30 of the ACCG)

The remuneration system in the Management Board contracts was revised and harmonized in the past year. Variable salary components (current and long-term bonus components) are replaced by the revised remuneration model with effect from January 1, 2019.

The aim of the revision was to define ambitious and relevant goals for the Management Board in the interest of our stakeholders. The new remuneration model complies with all legal requirements of the Austrian Stock Corporation Act (AktG) and with the recommendations of the ACCG.

Total remuneration still consists of a fixed current component, a variable current (performance-based) component (short-term incentive, STI) and a variable long-term (performance-based) component (long-term incentive, LTI).

- **Short-term Incentive (STI)**
  With effect from January 1, 2019, the STI is based on the company's performance in the respective preceding financial year and takes into account the financial benchmarks Group EBITDA and Group ROCE. In addition, the Remuneration Committee assesses non-financial criteria each year. These criteria may influence the amount of the bonus, which is determined on the basis of the financial benchmarks, and increase or decrease it by 20 percent. In order to be entitled to a bonus, a threshold value must be achieved for at least one of the two financial benchmarks. The bonus is paid in cash after the end of the respective financial year. The STI can amount to a maximum of 150 percent of the STI target value. The STI target value is an absolute amount. For the 2018 financial year the variable short-term component for the entire Management Board was based on the previously valid ROCE criteria and individual qualitative targets.

- **Long-term Incentive (LTI)**
  The LTI is granted on a rolling basis as of January 1, 2019, i.e., in annual tranches over three-year assessment periods. For this purpose, consolidated net profit for the year and ROCE are measured during the term of a tranche. In addition, the company's capital market performance is assessed in comparison with a group of selected listed companies. To this end, the total shareholder return – i.e., the share performance including dividend payments – is determined and compared with the peer group. The prerequisite for bonus entitlement is the achievement of a threshold value for at least one of the three benchmarks. The LTI is paid out in cash after the end of the three-year assessment period and can amount to a maximum of 200 percent of the (absolute) LTI target value. The LTI target value is an absolute amount. If a Management Board member resigns from his Management Board mandate before his term expires or if the Management Board Member is dismissed for material cause pursuant to Section 75 of the Austrian Stock Corporation Act, all entitlements to current LTI tranches of the current contractual period will lapse. As a result, the LTI also has a retention effect.

  Until December 31, 2018 the benchmark for the LTI was an increase in the value of the Lenzing Group (also including EBITDA and net debt), calculated based on an agreed formula, over a period of several years. For Thomas Obendrauf and Robert van de Kerkhof, whose Management Board contracts were extended as of January 1, 2019, some of the LTI provisions of their old contract continue to apply in parallel in 2019. Stefan Doboczky will receive one more payment from the old contract (period from June 1, 2015 to May 31, 2018) unless he resigns from his mandate early without material cause.

- The maximum bonus of 158 percent for Stefan Doboczky, 151 percent for Robert van de Kerkhof, 277 percent for Thomas Obendrauf and 68 percent for Heiko Arnold is based on the maximum current variable remuneration component plus the proportional share of the maximum long-term bonus in relation to the current fixed component. There is no stock option program or other program for the transfer of shares at a favorable price.
- The Management Board is also entitled to contributions by the company to a pension fund, which amounted to EUR 152 thousand in 2018 (2017: EUR 132 thousand). Of this total, EUR 78 thousand are attributable to Stefan Doboczky, EUR 32 thousand to Robert van de Kerkhof, EUR 21 thousand to Thomas Obendrauf and EUR 21 thousand to Heiko Arnold.
- Company pension benefits as well as severance payments and entitlements to benefits on the termination of a board member's employment contract are based on the Federal Act on Corporate Staff and Self-Employment Provision.
- The provisions of C-Rule 27a of the ACCG are adequately taken into consideration in the event a Management Board contract is terminated prematurely.
- The company has concluded directors and officers liability insurance (D&O insurance), accident insurance and legal protection insurance for the members of the Management Board.

The following amounts totaling EUR 3,333 thousand in 2018 (2017: EUR 5,131 thousand) represent short-term benefits and do not include any payments related to the termination of employment contracts.

Current remuneration for the active members of the Management Board of Lenzing AG (expensed):

The expenses recognized for entitlements arising from long-term bonus models (other non-current employee benefits and share-based payments) rose by EUR 1,940 thousand in 2018 (2017: EUR 2,244 thousand). Post-employment benefits of EUR 236 thousand (2017: EUR 216 thousand) were also granted to the active members of the Management Board for company pensions and termination payments. The remuneration paid for former members of the Management Board of Lenzing AG or their surviving dependents amounted to EUR 1,033 thousand in 2018 (2017: EUR 1,004 thousand).

The principles underlying the remuneration of the Supervisory Board are defined in the Articles of Association of Lenzing AG (Section 13), which are published on the company's website. In accordance with the Articles of Association, the members of the Supervisory Board are granted annual remuneration consistent with their responsibilities and the position of the company.

The remuneration of the Supervisory Board members for the 2017 financial year, which was approved by the Annual General Meeting of Lenzing AG on April 12, 2018, is as follows:

a. EUR 90,000 for the Chairman of the Supervisory Board

b. EUR 50,000 for the Deputy Chairman of the Supervisory Board

c. EUR 40,000 for each other Member of the Supervisory Board

d. EUR 50,000 for the Chairman auf the Audit Committee and the Strategy Committee as well as for the financial expert unless he/she is Chairman of the Audit Committee

Current remuneration for the active members of the Management Board of Lenzing AG (expensed): **EUR '000**

	Stefan Doboczky		Robert van de Kerkhof		Thomas Obendrauf		Heiko Arnold*		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Fixed current remuneration	778	643	437	437	397	397	398	328	2,010	1,805
Variable current remuneration	588	1,732	213	654	250	760	272	181	1,323	3,326
Total	**1,366**	**2,374**	**650**	**1,091**	**647**	**1,157**	**670**	**509**	**3,333**	**5,131**

* Member of the Management Board since May 1, 2017

e. EUR 25,000 for the Chairman of the Nomination Committee and the Remuneration Committee

f. EUR 20,000 for each member of the Audit Committee and the Strategy Committee

g. 10,000 for each member of the Nomination Committee and the Remuneration Committee

Each Supervisory Board member also receives an attendance fee of EUR 1,500 for each Supervisory Board meeting. The members of the Supervisory Board committees each receive an attendance fee of EUR 1,000 for each committee meeting, unless these meetings are held on the same day as a Supervisory Board meeting.

The members of the Supervisory Board received the following remuneration for 2017 (in total EUR 798,500), which was paid out in 2018:

Hanno M. Bästlein	EUR 223,500
Veit Sorger	EUR 103,500
Felix Strohbichler (resigned as of April 12, 2018)	EUR 121,500
Helmut Bernkopf	EUR 47,500
Josef Krenner	EUR 46,000
Franz Gasselsberger	EUR 44,500
Patrick Prügger	EUR 130,000
Astrid Skala-Kuhmann	EUR 82,000

The remuneration policy for the Group's global top management, the managing directors of subsidiaries and the region managers consists of a fixed and a variable component. The fixed remuneration represents an attractive income in line with the market. The variable remuneration is based, on the one hand, on the attainment of established financial targets for the Group and, on the other hand, on the fulfilment of individually defined personal goals.

Advancement of women in the Management Board, Supervisory Board and key management positions (L-Rule 60 of the ACCG)

Lenzing AG follows a strict equal opportunity policy and actively promotes the career development of women in managerial positions in all areas of the business.

The percentage of women in qualified positions in the Lenzing Group has increased steadily in recent years. Astrid Skala-Kuhmann and Daniela Födinger are members of the Supervisory Board. In 2018, Andrea Borgards was appointed to the company's Executive Committee as Senior Vice President Pulp and Wood. In addition, the company actively supports the compatibility of career and family life with flexible working time, work-at-home models and parental leave for both parents.

Compliance

A company's reputation and economic success can be significantly jeopardized by compliance violations. As a fiber producer, the Lenzing Group has very high standards in sustainability management and consequently strives to achieve a balance of the needs of society, the environment and shareholders.

Against this background, the management has adopted a Compliance Management System for the entire Lenzing Group, which is designed to ensure and demonstrate compliance with legal regulations and internal guidelines on a long-term basis.

The objective of the establishment and continuous development of the Compliance Management System is to prevent and reveal compliance violations against the company's interests, avoid liability risks and reputation damage, provide training, advice and protection for the management, executives and employees, and to increase efficiency through the coordination of existing compliance activities.

Policies, directives and guidelines

Policies are declarations of intent of Lenzing AG and its consolidated subsidiaries which define standards of conduct for all employees. They include the Global Code of Business Conduct as a guiding principle, the Supplier Code of Conduct, the Policy on Human Rights and Labor Standards, the Policy for Safety, Health and Environment, the Sustainability Policy, the Quality Policy and the Wood and Pulp Policy.

Directives define rules of conduct that are binding for all employees. Important directives include the Antitrust Directive, the Anti-Bribery and Corruption Directive, the Whistleblower Directive, the IP Protection Directive and the Issuer Compliance Directive.

Guidelines primarily contain descriptions of processes and instructions regarding work processes such as the safe handling of chemicals.

Global Code of Business Conduct

In 2018, more than 200 employees participated in training for an enhanced understanding of the Global Code of Business Conduct. All team members are encouraged to promptly report violations or suspected violations of this code.

Corporate Governance Report 2018

Important directives and special-purpose codes

Anti-Bribery and Corruption Directive

The Anti-Bribery and Corruption Directive (ABC Directive) was revised in 2018. The roll-out of the revised directive is scheduled for the first quarter of 2019.

Antitrust Directive

The Antitrust Directive provides a detailed overview of the most important antitrust-related circumstances in order to help all employees of the Lenzing Group to identify, prevent and report potential infringements of competition law. This directive is currently being revised.

Know-how Protection Directive

In order to meet the increasing challenges of the market environment and changing legal framework conditions such as the EU Know-how Protection Directive, the Know-how Protection Directive has been revised comprehensively and extended in many areas. The completion of the revised directive and its introduction throughout the group are planned for the first quarter of 2019.

Global Supplier Code of Conduct

The Global Supplier Code of Conduct outlines Lenzing's expectations for supplier conduct with respect to safety and health at work, labor and human rights, environmental protection, ethics and management practices.

Issuer Compliance Directive

The internal directive regarding issuer compliance was revised and approved by the Management Board in October 2018.

General Data Protection Regulation

Lenzing AG prepared intensively for the introduction of the General Data Protection Regulation.

An inter-company project team led by the responsible Data Protection Officer handles all tasks related to this topic. All employees who have IT access receive training via e-learning. More than 500 managers have already undergone personal, practice-oriented training. In addition, a new staff position for information security has been created, which focuses on the increasing security and data protection issues in the company.

Whistleblowing system

This system can be used to report abuse and concerns regarding unethical or unlawful behavior as well as behavior conflicting with corporate integrity. The Audit Committee is informed about the incidents reported twice per year. In 2018, 21 reports were filed via the whistleblowing system. All reports were processed in a targeted manner.

Compliance training

The Global Code of Business Conduct, which was revised in the 2017 financial year, applies to all team members of the Lenzing Group. In 2016, an international training program was developed in order to ensure that all employees of the Lenzing Group are familiar with the content of the code, understand it and consciously live by it in everyday work life. This program has been implemented since 2017.

In 2018, on-site training courses were held regarding the Global Code of Business Conduct, anticorruption and issuer compliance. More than 400 participants attended these courses. The Management Board and the members of the Extended Executive Committee received training at workshops on compliance management, anticorruption and antitrust topics. In addition, the members of the Management Board received training on a variety of compliance and liability topics.

Enforcement

The Compliance Officer reports to the Audit Committee of the Supervisory Board twice a year. A separate compliance report is published in the Annual Report in the section Corporate Governance.

With a view to possible corruption offences or violations of cartel law, no official measures were taken against the Lenzing Group in 2018 and no legal claims were asserted.

Directors' Dealings

The purchase and sale of shares by members of the Management Board and Supervisory Board are disclosed in accordance with the applicable legal regulations (Article 19 of the European Market Abuse Directive, Regulation (EU) No. 596/2014). Information on these purchases and sales is provided on the company's website.

Risk management and Internal Audit

The effectiveness of Lenzing's risk management system was evaluated by the auditor, KPMG Austria GmbH, in accordance with Rule 83 of the ACCG and resulted in an unqualified opinion. The Management Board was informed of the audit results. In addition, the Head of Risk Management reports regularly on current risks at the Audit Committee meetings.

The Internal Audit Department reports directly to the Management Board. The annual audit schedule is finalized in close cooperation with the Management Board and the Audit Committee. The Head of Internal Audit also makes regular reports to the Audit Committee on key audit findings.

External evaluation

In accordance with C-Rule 62 of the ACCG, Lenzing must arrange for an external institution to evaluate its compliance with the C-Rules of the code on a regular basis, but at least every three years. Lenzing commissioned PwC Oberösterreich Wirtschaftsprüfung und Steuerberatung GmbH to evaluate its Corporate Governance Report for 2018. This evaluation concluded that the statement of compliance with the Austrian Code of Corporate Governance (January 2018 version) issued by Lenzing Aktiengesellschaft gives a true and fair representation of the actual situation. All external evaluation reports are published on the company's website under www.lenzing.com.

Diversity concept

Respect, diversity and inclusion represent integral and indispensable components of the corporate culture of Lenzing Aktiengesellschaft and are reflected in appointments to all functions. Recommendations to the Annual General Meeting for elections to the Supervisory Board and the appointment of members to the Management Board are designed to achieve a technical and diversity-related balance because this makes an important contribution to the professionalism and effectiveness of the work performed by these two corporate bodies. In addition to technical and personal qualifications, aspects such as age structure, origin, gender, education and experience are also key criteria. Diversity within the Supervisory Board was further improved during the reporting year when vacant Supervisory Board mandates were filled. The diversity concept for the composition of the Supervisory Board and the Management Board was approved by the Nomination Committee on February 19, 2018.

Lenzing Aktiengesellschaft
Lenzing, March 5, 2019

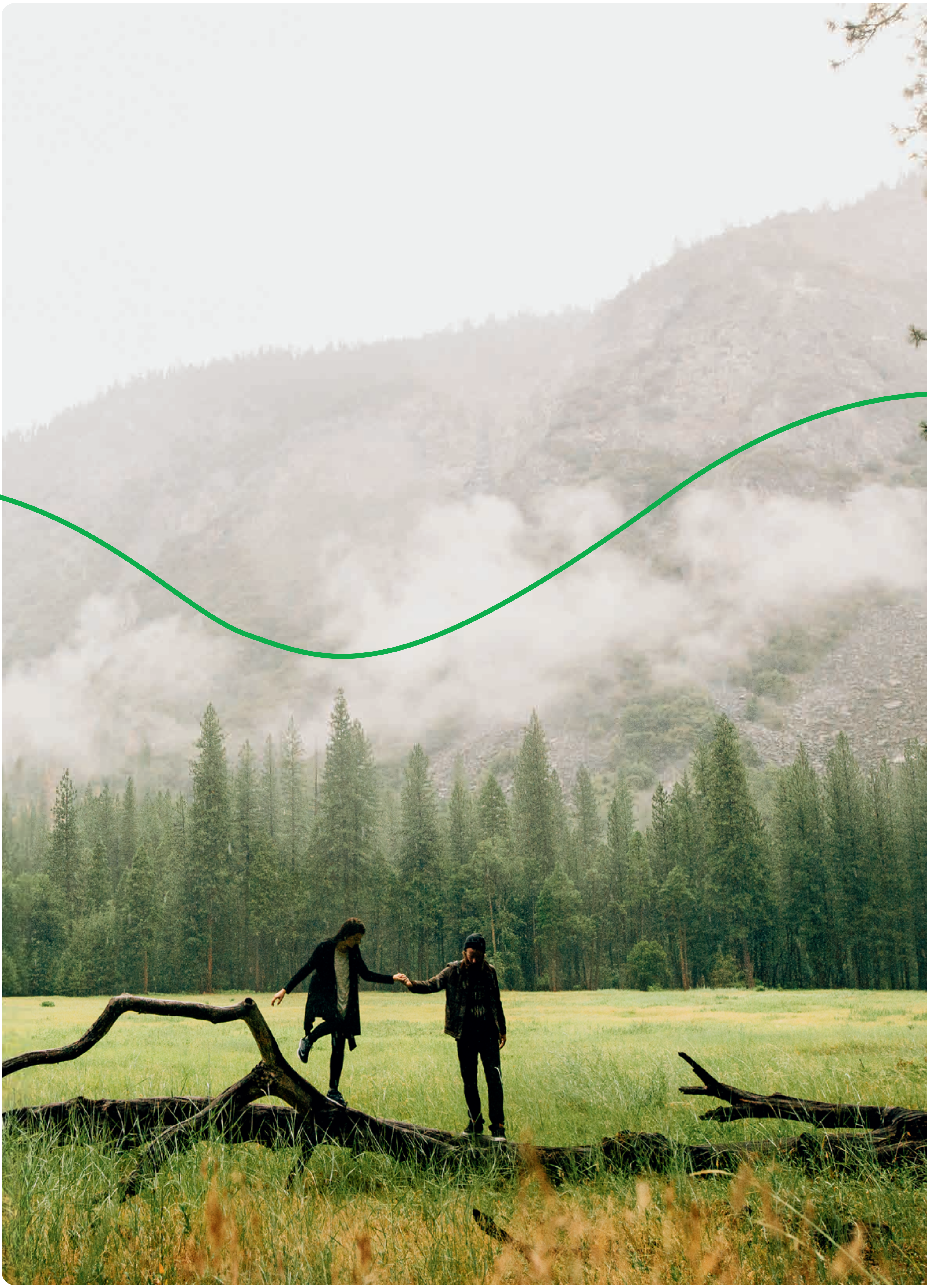
The Management Board

Stefan Doboczky
Chief Executive Officer
Chairman of the
Management Board

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

Thomas Obendrauf
Chief Financial Officer
Member of the
Management Board

Heiko Arnold
Chief Technology Officer
Member of the
Management Board



Consolidated Financial Statements 2018

Content Notes

Consolidated Income Statement

for the period from January 1 to December 31, 2018

			EUR '000
	Note	2018	2017
Revenue	(6)	2,176,013	2,259,398
Change in inventories of finished goods and work in progress		36,377	16,776
Own work capitalized		55,652	46,062
Other operating income	(7)	57,163	49,938
Cost of material and other purchased services	(8)	(1,297,265)	(1,257,960)
Personnel expenses	(9)	(374,499)	(349,371)
Other operating expenses	(10)	(271,462)	(262,373)
Earnings before interest, tax, depreciation and amortization (EBITDA)[1]		**381,980**	**502,470**
Amortization of intangible assets and depreciation of property, plant and equipment	(11)	(147,241)	(134,551)
Income from the release of investment grants		2,842	3,066
Earnings before interest and tax (EBIT)[1]		**237,580**	**370,985**
Income from investments accounted for using the equity method	(13)	(1,797)	4,260
Income from non-current and current financial assets	(14)	(5,154)	905
Financing costs	(15)	(9,097)	(12,450)
Financial result		**(16,048)**	**(7,285)**
Allocation of profit or loss to and measurement result of puttable non-controlling interests	(3)	(22,403)	(6,298)
Earnings before tax (EBT)[1]		**199,129**	**357,403**
Income tax expense	(16)	(50,929)	(75,683)
Net profit for the year		**148,201**	**281,720**
Net profit for the year attributable to shareholders of Lenzing AG		148,996	277,978
Net profit for the year attributable to non-controlling interests		(795)	3,741
Earnings per share		**EUR**	**EUR**
Diluted = basic	(17)	5.61	10.47

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

Consolidated Statement of Comprehensive Income

for the period from January 1 to December 31, 2018

			EUR '000
	Note	2018	2017
Net profit for the year as per consolidated income statement		**148,201**	**281,720**
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit liability	(31)	99	1,267
Financial assets measured at fair value through other comprehensive income (equity instruments) – net fair value gain/loss on remeasurement recognized during the year	(27)	1,148	0
Income tax relating to these components of other comprehensive income	(27)	(234)	(304)
Investments accounted for using the equity method – share of other comprehensive income (net of tax)	(20)	2	(12)
		1,016	**950**
Items that may be reclassified to profit or loss			
Foreign operations – foreign currency translation differences arising during the year	(27)	15,077	(42,263)
Available-for-sale financial assets – net fair value gain/loss on remeasurement recognized during the year	(27)	0	2,981
Available-for-sale financial assets – reclassification of amounts relating to financial assets disposed during the year	(27)	0	(263)
Financial assets measured at fair value through other comprehensive income (debt instruments) – net fair value gain/loss on remeasurement recognized during the year	(27)	(76)	0
Financial assets measured at fair value through other comprehensive income (debt instruments) – reclassification of amounts relating to financial assets disposed during the year	(27)	(9)	0
Cash flow hedges – effective portion of changes in fair value recognized during the year and non-designated components	(27)	(14,231)	21,493
Cash flow hedges – reclassification to profit or loss	(27)	2,577	(8,533)
Income tax relating to these components of other comprehensive income	(27)	2,676	(3,583)
Investments accounted for using the equity method – share of other comprehensive income (net of tax)	(27)	(220)	(246)
		5,795	**(30,413)**
Other comprehensive income – net of tax		**6,811**	**(29,463)**
Total comprehensive income		**155,011**	**252,257**
Attributable to shareholders of Lenzing AG		154,238	252,855
Attributable to non-controlling interests		774	(598)

Lenzing AG

Consolidated Statement of Financial Position

as at December 31, 2018

EUR '000

Assets	Note	31/12/2018	31/12/2017
Intangible assets	(18)	21,334	20,361
Property, plant and equipment	(19)	1,495,340	1,367,197
Investments accounted for using the equity method	(20)	13,367	8,422
Financial assets	(21)	36,679	36,442
Deferred tax assets	(30)	5,080	3,991
Current tax assets	(30)	18,845	4,855
Other non-current assets	(22)	4,754	8,933
Non-current assets		**1,595,400**	**1,450,202**
Inventories	(23)	396,487	340,056
Trade receivables	(24,25)	299,645	292,770
Current tax assets	(30)	3,138	227
Other current assets	(26)	92,380	107,562
Cash and cash equivalents		243,865	306,455
Current assets		**1,035,515**	**1,047,069**
Total assets		**2,630,915**	**2,497,270**

Equity and liabilities	Note	31/12/2018	31/12/2017
Share capital		27,574	27,574
Capital reserves		133,919	133,919
Other reserves		7,452	(1,619)
Retained earnings		1,332,802	1,316,434
Equity attributable to shareholders of Lenzing AG		**1,501,747**	**1,476,309**
Non-controlling interests		32,178	31,570
Equity	**(27)**	**1,533,925**	**1,507,879**
Financial liabilities	(29)	307,570	255,330
Government grants	(28)	16,879	18,307
Deferred tax liabilities	(30)	50,373	52,685
Provisions	(31)	126,484	131,742
Puttable non-controlling interests	(3)	0	17,967
Other liabilities	(32)	4,158	3,815
Non-current liabilities		**505,465**	**479,846**
Financial liabilities	(29)	166,197	127,270
Trade payables	(32)	251,721	218,433
Government grants	(28)	8,446	7,924
Current tax liabilities		10,413	21,636
Provisions	(31)	107,860	95,749
Other liabilities	(32)	46,888	38,532
Current liabilities		**591,525**	**509,545**
Total equity and liabilities		**2,630,915**	**2,497,270**

Consolidated Statement of Changes in Equity

for the period from January 1 to December 31, 2018

	Note	Share capital	Capital reserves	Foreign currency translation reserve
As at 01/01/2017		**27,574**	**133,919**	**67,942**
Net profit for the year as per consolidated income statement		0	0	0
Other comprehensive income – net of tax		0	0	(38,312)
Total comprehensive income		**0**	**0**	**(38,312)**
Acquisition/disposal of non-controlling interests and other changes in the scope of consolidation	(3, 27)	0	0	0
Share-based payments	(40)	0	0	0
Dividends		0	0	0
Reclassification due to the change in share-based remuneration	(40)	0	0	0
As at 31/12/2017 = 01/01/2018		**27,574**	**133,919**	**29,630**
First-time adoption of IFRS 9 (Financial Instruments)[2]		0	0	0
As at 01/01/2018 (adjusted)		**27,574**	**133,919**	**29,630**
Net profit for the year as per consolidated income statement		0	0	0
Other comprehensive income – net of tax		0	0	13,413
Total comprehensive income		**0**	**0**	**13,413**
Acquisition/disposal of non-controlling interests and other changes in the scope of consolidation	(3, 27)	0	0	0
Dividends		0	0	0
Reclassification due to settlement or disposal of defined benefit plans	(40)	0	0	0
As at 31/12/2018	**(27)**	**27,574**	**133,919**	**43,043**

1) Was classified under IAS 39 (Financial Instruments: Recognition and Measurement) as “available-for-sale financial assets” in the previous year.
2) The first-time adoption of IFRS 9 as of January 1, 2018 resulted in an increase in equity with no effect on profit or loss arising primarily from the reclassification and measurement of equity instruments that were previously measured at cost and are now measured at fair value through other comprehensive income. Additional details are provided in note 2.

Other reserves						EUR '000
Financial assets measured at fair value through other comprehensive income[1]	Hedging reserve and non-designated components	Actuarial gains/losses	Retained earnings	Equity attributable to shareholders of Lenzing AG	Non-controlling interests	Equity
2,444	**(6,221)**	**(40,661)**	**1,151,143**	**1,336,141**	**32,395**	**1,368,535**
0	0	0	277,978	**277,978**	3,741	**281,720**
2,039	10,057	1,092	0	**(25,123)**	(4,340)	**(29,463)**
2,039	**10,057**	**1,092**	**277,978**	**252,855**	**(598)**	**252,257**
0	0	0	(1)	**(1)**	1	**0**
0	0	0	743	**743**	0	**743**
0	0	0	(111,510)	**(111,510)**	(227)	**(111,737)**
0	0	0	(1,919)	**(1,919)**	0	**(1,919)**
4,483	**3,837**	**(39,569)**	**1,316,434**	**1,476,309**	**31,570**	**1,507,879**
3,978	0	0	(26)	**3,952**	(3)	**3,949**
8,461	**3,837**	**(39,569)**	**1,316,408**	**1,480,261**	**31,567**	**1,511,828**
0	0	0	148,996	**148,996**	(795)	**148,201**
798	(8,999)	30	0	**5,242**	1,569	**6,811**
798	**(8,999)**	**30**	**148,996**	**154,238**	**774**	**155,011**
0	0	0	(1)	**(1)**	1	**0**
0	0	0	(132,750)	**(132,750)**	(165)	**(132,915)**
0	0	(149)	149	**0**	0	**0**
9,259	**(5,163)**	**(39,688)**	**1,332,802**	**1,501,747**	**32,178**	**1,533,925**

Consolidated Statement of Cash Flows

for the period from January 1 to December 31, 2018

EUR '000

		Note	2018	2017
Net profit for the year			**148,201**	**281,720**
+	Amortization of intangible assets and depreciation of property, plant and equipment	(11)	147,241	134,551
–	Income from the release of investment grants		(2,842)	(3,066)
+/–	Change in non-current provisions		(2,154)	(1,093)
–/+	Income / expenses from deferred taxes		(3,392)	(1,023)
+/–	Change in current tax assets and liabilities		(27,428)	(4,054)
+/–	Income from investments accounted for using the equity method		1,838	4,056
–/+	Other non-cash income / expenses	(33)	42,508	7,590
Gross cash flow			**303,972**	**418,681**
+/–	Change in inventories		(62,381)	(33,900)
+/–	Change in receivables		6,041	(54,277)
+/–	Change in liabilities		32,403	(59,398)
Change in working capital			**(23,937)**	**(147,576)**
Cash flow from operating activities			**280,035**	**271,105**
–	Acquisition of intangible assets, property, plant and equipment (CAPEX)		(257,595)	(238,757)
–	Acquisition of financial assets and investments accounted for using the equity method		(8,023)	(6,543)
+	Proceeds from the sale of intangible assets, property, plant and equipment		1,100	226
+	Proceeds from the sale/repayment of financial assets and the sale of investments accounted for using the equity method	(33)	2,565	23,408
+	Net inflow from the sale and disposal of subsidiaries and other business areas	(4)	141	3,063
Cash flow from investing activities			**(261,812)**	**(218,603)**
–	Distribution to shareholders		(132,915)	(111,737)
–	Acquisition of non-controlling interests	(3)	(40,620)	0
+	Investment grants		690	1,855
+	Increase in other financial liabilities	(33)	188,471	15,922
–	Repayment of bonds and private placements	(33)	(29,000)	(120,000)
–	Repayment of other financial liabilities	(33)	(68,586)	(83,204)
Cash flow from financing activities			**(81,960)**	**(297,163)**
Total change in liquid funds			**(63,737)**	**(244,661)**
Liquid funds at the beginning of the year			306,455	559,599
Currency translation adjustment relating to liquid funds			1,148	(8,483)
Liquid funds at the end of the year			**243,865**	**306,455**
Additional information on payments in the cash flow from operating activities:				
Interest payments received			1,846	2,058
Interest payments made			8,653	14,549
Income taxes paid			82,156	80,625
Distributions received from investments accounted for using the equity method			40	5,081

Notes to the Consolidated Financial Statements

as at December 31, 2018

General Information

Note 1. Basic information

Description of the company and its business activities

Lenzing Aktiengesellschaft (Lenzing AG), which maintains its registered headquarters in 4860 Lenzing, Werkstrasse 2, Austria, is the parent company of the Lenzing Group (the "Group"). The shares of Lenzing AG are listed in the Prime Market Segment (since April 18, 2011) and in the ATX benchmark index (since September 19, 2011) of the Vienna Stock Exchange in Vienna, Austria.

The core shareholder of Lenzing AG as at December 31, 2018 is the B&C Group, which directly and indirectly holds an investment of 50 percent plus two shares (December 31, 2017: 50 percent plus two shares) in the share capital of Lenzing AG. The direct majority shareholder of Lenzing AG is B&C LAG Holding GmbH, Vienna. The indirect majority shareholder of Lenzing AG, which prepares and publishes consolidated financial statements that include the Lenzing Group, is B&C Holding Österreich GmbH, Vienna. The ultimate parent company of the B&C Group, and therefore also of Lenzing AG, is B&C Privatstiftung, Vienna.

The core business of the Lenzing Group is the production and marketing of botanic cellulose fibers. The pulp required for production is manufactured for the most part in the Group's own plants and is supplemented by external purchases. In addition, the Lenzing Group operates in the area of mechanical and plant engineering and offers engineering services.

Basis of Reporting

The consolidated financial statements for the period from January 1 to December 31, 2018 were prepared in accordance with the International Financial Reporting Standards (IFRSs) and interpretations which were endorsed in the EU and required mandatory application as of the reporting date. The additional requirements of Section 245a Para. 1 of the Austrian Commercial Code ("Unternehmensgesetzbuch") were also met.

The reporting currency is the euro (EUR), which is also the functional currency of Lenzing AG and the majority of its subsidiaries. The figures shown in these consolidated financial statements and notes were rounded to the next thousand, unless indicated otherwise ("EUR '000"). The use of automatic data processing tools can lead to rounding differences in the addition of rounded amounts and percentage rates.

Measurement

Assets and liabilities are principally measured at amortized or depreciated cost. In contrast, other measurement methods are used for the following material positions:

- Provisions are measured at the present value of the expected settlement amount.
- Deferred tax assets and deferred tax liabilities are recognized at their nominal value. They are measured on the basis of the temporary differences existing as at the reporting date and the effective tax rate expected when the differences are realized.
- Derivative financial instruments and financial assets measured at fair value through profit or loss and at fair value through other comprehensive income are measured at their fair value.

Estimation uncertainty and judgments

The Management Board of Lenzing AG uses estimates, assumptions and judgments in preparing the IFRS consolidated 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 involve the recognition and measurement of assets and liabilities, contingent receivables and liabilities, the reporting of cash flows and income and expenses (including other comprehensive income) as well as the presentation of disclosures in the notes.

Assumptions and estimates

The following future-oriented assumptions and other major sources of estimation uncertainty at the reporting date could have significant effects on these consolidated financial statements of the Lenzing Group:

- Goodwill (see note 18) and property, plant and equipment (see note 19): determination of the recoverable amount in connection with impairment testing as defined in IAS 36.
- Financial instruments (see note 37): determination of fair values and expected credit losses.
- Provisions (see note 31): determination of the expected settlement amount and the net liability of the defined benefit pension and severance payment plans.
- Deferred taxes and receivables from current taxes (see note 30): assessment of the extent to which deferred tax assets (in particular, from loss carryforwards) can be utilized and assessment of the recoverability of receivables from current taxes.

Assumptions and estimates are based on experience and other factors that are considered relevant by the Management Board. However, the amounts actually realized can deviate from these assumptions and estimates if general conditions develop in a different way than the expectations as at the reporting date.

Judgments

The application of accounting policies by the Lenzing Group included the following major judgments, which had a material influence on the amounts reported in the consolidated financial statements:

- Liabilities within the scope of reverse factoring agreements (see note 32): assessment of the requirements for derecognition as defined in IFRS 9 (December 31, 2017: IAS 39).
- Full consolidation and equity method (see note 3 and note 43): assessment of the existence of control over subsidiaries and assessment of the existence of joint control or significant influence.
- Sale of investments accounted for using the equity method (see note 20): evaluation and measurement of the partial sale of the investment in EQUI-Fibres Beteiligungsgesellschaft mbH (EFB), Kelheim, Germany.
- Evidence of impairment (see note 18): evaluation of indications of impairment resp. for impaired cash-generating units evaluation of the occurrence of material changes in comparison with the previous year.

Note 2. Changes in accounting policies

The accounting policies applied by the Lenzing Group in 2018 remained unchanged in comparison with the previous financial year, with the exception of the changes described in this section.

Mandatory changes in accounting policies

The following new and amended standards and interpretations were adopted into EU law and required mandatory application by the Lenzing Group beginning with the 2018 financial year:

Standards/interpretations		Publication by the IASB	Mandatory application according to IASB for financial years from	Adopted by the EU as at 31/12/2018
IFRS 15	Revenue from Contracts with Customers	28/05/2014	01/01/2018	yes
IFRS 9	Financial Instruments	24/07/2014	01/01/2018	yes
IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers	12/04/2016	01/01/2018	yes
IFRS 2	Share-based Payment: Clarifications of Classification and Measurement of Share-based Payment Transactions	20/06/2016	01/01/2018	yes
IFRS 4	Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"	12/09/2016	01/01/2018	yes
IFRS 1, IAS 28	Amendment of a number of IFRSs as a result of the 2014–2016 improvement process	08/12/2016	01/01/2018	yes
IFRIC 22	Foreign Currency Transactions and Advance Consideration	08/12/2016	01/01/2018	yes
IAS 40	Transfers of Investment Property: Classification of Property under Construction	08/12/2016	01/01/2018	yes

Initial application of IFRS 15

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

Initial application of IFRS 9

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

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

Overall, there are only immaterial changes based on the new measurement categories of financial instruments in the Lenzing Group. An evaluation of the business model and the cash flows related to interest and principal payments showed that the financial assets generally reflect the categories previously applied under IAS 39 (Financial Instruments: Recognition and Measurement).

Originated loans, non-current securities and other financial assets (current and non-current) which do not meet the SPPI criterion were reclassified to the category “at fair value through profit or loss”.

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

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

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

Reconciliation of carrying amounts by category – retrospective adaption of IFRS 9 EUR '000

Financial assets	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 as at 31/12/2017	Carrying amount under IFRS 9 as at 01/01/2018
Originated loans				
thereof	At amortized cost (loans and receivables)	At fair value through profit or loss	1,364	1,364
thereof	At amortized cost (loans and receivables)	At amortized cost	14,732	14,732
Non-current securities				
thereof	At fair value directly in equity – available for sale	At fair value through profit or loss	1,728	1,728
thereof	At fair value directly in equity – available for sale	At fair value directly in equity (debt instruments)	5,579	5,579
thereof	At fair value directly in equity – available for sale	At fair value directly in equity (equity instruments)	11,478	11,478
Other equity investments	**At fair value directly in equity – available for sale**[1]	**At fair value directly in equity (equity instruments)**	**1,562**	**10,532**
Trade receivables	**At amortized cost (loans and receivables)**	**At amortized cost**	**292,770**	**292,479**
Derivatives with a positive fair value (cash flow hedges)	At fair value directly in equity (cash flow hedges)	At fair value directly in equity (cash flow hedges)	7,485	7,485
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)	At fair value through profit or loss	At fair value through profit or loss	5,185	5,185
Other financial assets (current and non-current)				
thereof	At amortized cost (loans and receivables)	At fair value through profit or loss	5,756	5,756
thereof	At amortized cost (loans and receivables)	At amortized cost	21,604	21,604
Cash and cash equivalents	**At amortized cost (loans and receivables)**	**At amortized cost**	**306,455**	**306,455**
Total financial assets			**675,697**	**684,375**

Financial liabilities	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 as at 31/12/2017	Carrying amount under IFRS 9 as at 01/01/2018
Private placements	At amortized cost	At amortized cost	248,568	248,568
Liabilities to banks	At amortized cost	At amortized cost	97,707	97,707
Liabilities to other lenders	At amortized cost	At amortized cost	34,473	34,473
Trade payables	At amortized cost	At amortized cost	218,433	218,433
Provisions (current)	At amortized cost	At amortized cost	26,509	26,509
Puttable non-controlling interests	At amortized cost	At amortized cost	17,967	17,967
Derivatives with a negative fair value (fair value hedges)	At cost	At fair value directly in equity	0	3,387
Derivatives with a negative fair value (cash flow hedges)	At fair value directly in equity (cash flow hedges)	At fair value directly in equity (cash flow hedges)	2,528	2,528
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)	At fair value through profit or loss	At fair value through profit or loss	1,316	1,316
Other	At amortized cost	At amortized cost	4,032	4,032
Total financial liabilities			**651,533**	**654,920**

1) Measured at cost.

The other new or amended standards and interpretations applicable as of January 1, 2018 did not result in any significant changes to the consolidated financial statements of the Lenzing Group.

The following new or amended standards and interpretations had been published by the IASB prior to the preparation of these consolidated financial statements, but did not require mandatory application by the Lenzing Group for financial years beginning on or before January 1, 2018:

Standards/interpretations		Publication by the IASB	Mandatory application according to IASB for financial years from	Adopted by the EU as at 31/12/2018
IFRS 14	Regulatory Deferral Accounts	30/01/2014	01/01/2016	no[1]
IFRS 10, IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	11/09/2014	unknown[2]	no
IFRS 16	Leases	13/01/2016	01/01/2019	yes
IFRS 17	Insurance Contracts	18/05/2017	01/01/2021	no
IFRIC 23	Uncertainty over Income Tax Treatments	07/06/2017	01/01/2019	yes
IAS 28	Investments in Associates and Joint Ventures: Clarification of the Application of IFRS 9 on Long-term Interests in Associates and Joint Ventures	12/10/2017	01/01/2019	yes
IFRS 9	Financial Instruments: Clarification of Prepayment Features with Negative Compensation	12/10/2017	01/01/2019	yes
Various	Amendment of a number of IFRSs as a result of the 2015–2017 improvement process	12/12/2017	01/01/2019	yes
IAS 19	Employee Benefits: Clarification of accounting rules for plan changes, curtailments or settlements	07/02/2018	01/01/2019	no
Conceptual Framework	Updated References to the Conceptual Framework	29/03/2018	01/01/2020	no
IFRS 3	Business Combinations: Definition of a Business	22/10/2018	01/01/2020	no
IAS 1, IAS 8	Amendments in Definition of Material	31/10/2018	01/01/2020	no

1) The European Commission does not recommend the adoption of interim standard IFRS 14 into EU law at the present time.
2) The IASB has deferred the effective date of this standard indefinitely.

The above-mentioned new or amended standards and interpretations were not adopted prematurely by the Lenzing Group. They are expected to have the following effects on the Group's financial position and financial performance in future financial years:

- **IFRS 16:** IFRS 16 (Leases) introduces changes in the accounting of leases for the lessee. Future requirements for the lessee include the capitalization of a right-of-use asset obtained through a lease and the recognition of a lease liability as well as the carryforward of both amounts. The effective interest method is used for the measurement of the lease liability. The interest rate used at the time of initial application is the incremental borrowing rate for the respective term and currency in the Lenzing Group. For the subsequent measurement of the lease liability the incremental borrowing rate is used. The Lenzing Group's entire contract portfolio has been analyzed. The contract portfolio consists of many contracts, whose overall value is immaterial. The selection and implementation of a software tool to administer and record the leases for the entire Lenzing Group was completed and all leases were recorded. From the current perspective, the application of IFRS 16 results in the first-time recognition of right-of-use assets (increase in non-current assets) and lease liabilities (increase in financial liabilities) in the amount of EUR 32 mn which were previously classified as operating leases (see note 39) as at January 1, 2019. The right-of-use assets recognized are amortized on a straight-line basis over their economic useful life, or the shorter term of the contract. In addition, the previous straight-line recognition of leasing expenses will be replaced by the amortization of the right-of-use asset and interest expense on the lease liability. EBITDA, EBIT and cash flow from operating activities are expected to improve as a result of the amended reporting requirements. Amended and expanded disclosures in the notes on lease accounting will be required. Lease contracts previously classified as finance lease under IAS 17 and IFRIC 4 will continue to be classified as leases. The immaterial effect resulting from the initial application of the new leasing standard has been communicated to the Supervisory Board. Relief is provided for short-term leases and for leases of low-value assets. The Lenzing Group will make use of this relief. Hence, short-term leases and leases for low-value assets are not capitalized as right-of-use assets, but will continue to be recognized as an expense over the term of the lease. Leases whose term ends within 12 months of the time of initial application are treated as if they were short-term leases. Termination and extension options were taken into account when estimating the expected term of the leases. The option to select not to capitalize leasing contracts for intangible assets is used. The option to recognize the right-of-use asset in the amount of the lease liability less lease payments made in advance is used. At the time of initial application, the initial direct costs are not taken into consideration in the measurement of the right-of-use asset. The Lenzing Group will use the modified retrospective approach for the application of this standard beginning on the mandatory application date (January 1, 2019).

- **Other:** A number of other standards, amendments and interpretations are not relevant for the Lenzing Group or do not have any significant impact on the Group's earnings, assets, liabilities or cash flows.

The application of these standards and interpretations is generally planned following their endorsement by the EU.

Voluntary changes in accounting policies

There were no voluntary changes to accounting policies during the 2018 financial year.

Note 3. Consolidation

Scope of consolidation

The consolidated financial statements of the Lenzing Group include Lenzing AG, as the parent company, and its subsidiaries, all on the basis of financial statements as at December 31, 2018.

The number of companies included in the scope of consolidation developed as follows:

Development of the scope of consolidation (incl. parent company)	2018		2017	
	Full-consolidation	Equity	Full-consolidation	Equity
As at 01/01	**29**	**7**	**27**	**8**
Included in consolidation for the first time during the year	1	1	2	0
Deconsolidated during the year	(2)	0	0	(1)
As at 31/12	**28**	**8**	**29**	**7**
Thereof in Austria	8	4	10	4
Thereof abroad	20	4	19	3

A list of the group companies as at December 31, 2018 is provided in note 43. The most important group companies produce and market botanic cellulose fibers and, in some cases, pulp (Segment Fibers).

Lenzing AG controls assets in the GF 82 wholesale fund, a special fund under Section 20a of the Austrian Investment Fund Act ("österreichisches Investmentfondsgesetz") on the basis of its comprehensive co-determination rights. This fund is therefore classified as a structured entity and included in the consolidation. The securities held by the fund are intended, above all, to fulfill the securities coverage requirements for the pension provisions related to Austrian pension plans as required by Section 14 of the Austrian Income Tax Act ("österreichisches Einkommensteuergesetz"). The material risks to which the fund is exposed are unchanged and represent traditional investment risks (especially default and market price risks). The Lenzing Group does not intend to provide the fund with financial or other assistance or help with the procurement of financial support at the present time.

In October 2018 the Lenzing Group acquired 30 percent of the shares in Lenzing (Nanjing) Fibers Co. Ltd, Nanjing, China, which had already been fully consolidated, for EUR 40,620 thousand. The investment in this company has consequently increased from 70 percent to 100 percent. As a result of this transaction, the puttable non-controlling interests have decreased to EUR 0 thousand. The measurement loss of EUR minus 21,480 thousand resulting from this transaction was recognized in the consolidated income statement under the item Allocation of profit or loss to and measurement result of puttable non-controlling interests.

In April 2018, the subsidiary LD Celulose S.A., Sao Paulo, Brazil was founded and included in the scope of fully consolidated companies. In addition, the joint venture LD Florestal S.A., Sao Paulo, Brazil was founded in April 2018 and included in the scope of consolidation using the equity method.

The previously fully consolidated subsidiaries ASIA Fiber Engineering GmbH, Vienna, Austria, and Cellulose Consulting GmbH, Vienna, Austria, were liquidated and deconsolidated in 2018.

Lenzing Elyaf Anonim Sirketi, Istanbul, Turkey, and Lenzing (Thailand) Co., Ltd., Bangkok, Thailand, were founded in January 2017 and August 2017, respectively, and subsequently included in the scope of fully consolidated companies.

The closing for the sale of LKF Tekstil Boya Sanayi ve Ticaret Anonim Sirketi, Istanbul, Turkey, took place in May 2017. This disposal generated a gain of EUR 0.2 mn, which is reported under income from investments accounted for using the equity method.

Basis of consolidation

Subsidiaries are companies controlled by the parent company. The Lenzing Group decides individually for each acquisition whether the non-controlling interests in the acquired subsidiary will be recognized at fair value or based on the proportional share of the acquired net assets. On acquisition, non-controlling interests are measured at fair value or the corresponding share of recognized net assets and are reported under equity and comprehensive income as "non-controlling interests".

The shares of capital attributable to the non-controlling shareholders of certain companies are reported as puttable non-controlling interests. These shares are not classified as equity under IFRS because of the time limits defined by company law for the involved companies and are initially measured at fair value, which generally corresponds to the fair value of the non-controlling shareholder's contribution at the time it was made. Subsequent measurement involves an increase or decrease in the amount recognized under liabilities on initial measurement to reflect the gain or loss incurred up to the measurement date.

The investments in associates and joint ventures are accounted for by applying the equity method.

The reporting currency of Lenzing AG and the Lenzing Group is the euro. The subsidiaries prepare their annual financial statements in their respective functional currency. The following key exchange rates were used for translation into the reporting currency:

Exchange rates for key currencies			2018		2017	
Unit	Currency		End of the year	Average	End of the year	Average
1 EUR	USD	US Dollar	1.1454	1.1815	1.1993	1.1293
1 EUR	GBP	British Pound	0.9027	0.8847	0.8872	0.8761
1 EUR	CZK	Czech Koruna	25.7780	25.6432	25.5350	26.3272
1 EUR	CNY	Renminbi Yuan	7.8778	7.8074	7.8044	7.6264
1 EUR	HKD	Hong Kong Dollar	8.9716	9.2599	9.3720	8.8012
1 EUR	INR	Indian Rupee	80.2255	80.7277	76.6055	73.4980
1 EUR	KRW	Korean Won	1,279.3500	1,299.2533	1,279.6100	1,275.8325
1 EUR	TRY	Turkish Lira	6.0400	5.6986	4.5464	4.1214
1 EUR	BRL	Brazilian Real	4.4427	4.30874	-	-

Note 4. Non-current assets and liabilities held for sale, disposal groups and discontinued operations

2018 financial year

Expenses of EUR 1,183 thousand before income tax were recognized in 2018 in connection with previously sold business areas and former discontinued operations due to the elimination of uncer-tainties and changes in estimates. This does not result in any tax income/expense. The result after tax therefore equals EUR minus 1,183 thousand. These amounts are attributable in full to the owners of the parent company. The cash effects are related to the payment of earn out receivables of EUR 141 thousand from the sale of consolidated subsidiaries in previous years. They are presented under cash flow from investing activities as part of the "net inflow from the sale and disposal of subsidiaries and other business areas".

The Lenzing Group had no non-current assets and liabilities held for sale and no discontinued operations as at December 31, 2018.

2017 financial year

Expenses of EUR 562 thousand before income tax were recognized in 2017 in connection with previously sold business areas and former discontinued operations due to the elimination of uncertainties and changes in estimates. These expenses were connected with tax expense of EUR 54 thousand. The result after tax therefore equals EUR minus 616 thousand. These amounts are attributable in full to the owners of the parent company. The cash effects are related to the payment of earn out receivables of EUR 2,500 thousand from the sale of consolidated subsidiaries in previous years. They are presented under cash flow from investing activities as part of the "net inflow from the sale and disposal of subsidiaries and other business areas".

The Lenzing Group had no non-current assets and liabilities held for sale and no discontinued operations as at December 31, 2017.

Note 5. Segment reporting

The Lenzing Group classifies its segments based on the differences between their products and services, which require individual technologies and market strategies. Each segment is managed in line with the responsibilities assigned to the various members of the Management Board. The chief operating decision maker relevant for segment reporting is the Management Board of Lenzing AG as a whole. The following segments are presented separately in the internal reporting of the Lenzing Group to the Management Board:

Segment Fibers

The Segment Fibers manufactures botanic cellulose fibers which are marketed under the product brands TENCEL™, VEOCEL™ and LENZING™. A significant portion of the pulp required for these products is produced in the Group's own plants, whereby the internal volumes are supplemented by external purchases. The most important raw material for the manufacture of pulp is wood, which is purchased externally. The Segment Fibers forms the core business of the Lenzing Group.

The Segment Fibers comprises, above all, the business areas Textile Fibers (fibers for textiles), Nonwoven Fibers (fibers for nonwoven fabrics) and Pulp & Wood (pulp, wood and biochemicals) due to their comparability with the key business characteristics of the cellulose fiber industry (products, production process, customers and distribution methods). These business areas are part of an integrated value chain (from the raw material wood via the pre-product pulp to the finished product fiber) with similar risks and opportunities. This segment also includes, in particular, the business area Energy because it has by far the highest energy requirements in the Lenzing Group due to the energy-intensive nature of the fiber and pulp production process.

Segment Lenzing Technik

The Segment Lenzing Technik operates in the field of mechanical and plant engineering and offers engineering services. It comprises the business area Lenzing Technik.

Other

The residual segment Other covers the business activities of BZL-Bildungszentrum Lenzing GmbH, Lenzing (training and personnel development).

The residual segment Other does not include any business areas that would exceed the quantitative thresholds for reportable segments.

Information on business segments EUR '000

2018 and 31/12/2018	Fibers	Lenzing Technik	Other	Segment total	Reconciliation	Group
Revenue from external customers	2,163,994	9,805	2,214	**2,176,013**	0	**2,176,013**
Inter-segment revenue	4,422	32,552	3,111	**40,085**	(40,085)	**0**
Total revenue	**2,168,416**	**42,357**	**5,325**	**2,216,098**	**(40,085)**	**2,176,013**
EBITDA (segment result)	381,046	2,237	901	**384,184**	(2,204)	**381,980**
EBIT	234,125	1,485	848	**236,458**	1,122	**237,580**
Amortization of intangible assets and depreciation of property, plant and equipment	149,763	752	53	**150,567**	(3,326)	**147,241**
Thereof impairment	8,711	0	0	**8,711**	0	**8,711**
Income from investments accounted for using the equity method	(1,127)	0	(671)	**(1,797)**	0	**(1,797)**
Other material non-cash income and expenses	86,094	3,201	333	**89,628**	0	**89,628**
Acquisition of intangible assets, property, plant and equipment (CAPEX)	254,633	2,822	140	**257,595**	0	**257,595**
EBITDA margin[1]	17.6%	5.3%	16.9%	**17.3%**		**17.6%**
EBIT margin[2]	10.8%	3.5%	15.9%	**10.7%**		**10.9%**
Segment assets	2,313,503	37,856	1,759	**2,353,117**	277,798	**2,630,915**
Segment liabilities	521,993	36,411	2,137	**560,541**	536,449	**1,096,990**
Investments accounted for using the equity method	12,213	0	1,154	**13,367**	0	**13,367**

Information on business segments (previous year) EUR '000

2017 and 31/12/2017	Fibers	Lenzing Technik	Other	Segment total	Reconciliation	Group
Revenue from external customers	2,244,505	12,802	2,091	**2,259,398**	0	**2,259,398**
Inter-segment revenue	6,683	29,469	2,695	**38,848**	(38,848)	**0**
Total revenue	**2,251,188**	**42,271**	**4,786**	**2,298,245**	**(38,848)**	**2,259,398**
EBITDA (segment result)	499,207	3,445	983	**503,634**	(1,164)	**502,470**
EBIT	364,769	2,806	951	**368,527**	2,458	**370,985**
Amortization of intangible assets and depreciation of property, plant and equipment	137,503	640	31	**138,174**	(3,622)	**134,551**
Thereof impairment	221	0	0	**221**	0	**221**
Income from investments accounted for using the equity method	4,216	0	44	**4,260**	0	**4,260**
Other material non-cash income and expenses	70,433	3,504	260	**74,197**	0	**74,197**
Acquisition of intangible assets, property, plant and equipment (CAPEX)	236,065	2,608	84	**238,757**	0	**238,757**
EBITDA margin[1]	22.2%	8.1%	20.5%	**21.9%**		**22.2%**
EBIT margin[2]	16.2%	6.6%	19.9%	**16.0%**		**16.4%**
Segment assets	2,146,692	28,537	1,373	**2,176,602**	320,668	**2,497,270**
Segment liabilities	494,312	28,924	1,769	**525,005**	464,386	**989,391**
Investments accounted for using the equity method	6,557	0	1,865	**8,422**	0	**8,422**

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).

Other material non-cash income and expenses represent non-cash measurement effects from provisions and accruals.

The performance of the segments is measured by EBITDA (earnings before interest, tax, depreciation on property, plant and equipment and amortization of intangible assets, before income from the release of investment grants).

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

Reconciliation of earnings before interest, tax, depreciation and amortization (EBITDA) to the earnings before tax (EBT) — EUR '000

	2018	2017
Earnings before interest, tax, depreciation and amortization (EBITDA)	381,980	502,470
Segment amortization of intangible assets and depreciation of property, plant and equipment	(150,567)	(138,174)
Consolidation	3,326	3,622
Income from the release of investment grants	2,842	3,066
Earnings before interest and tax (EBIT)	**237,580**	**370,985**
Financial result	(16,048)	(7,285)
Allocation of profit or loss to and measurement result of puttable non-controlling interests	(22,403)	(6,298)
Earnings before tax (EBT)	**199,129**	**357,403**

Segment assets consist chiefly of intangible assets and property, plant and equipment, inventories, trade receivables and other receivables (excluding income tax receivables). The reconciliation of segment assets to consolidated assets (corresponding to total assets, i.e. the total of non-current and current assets or the total of equity and non-current and current liabilities) is as follows:

Reconciliation of segment assets to consolidated assets — EUR '000

	31/12/2018	31/12/2017
Segment assets	2,353,117	2,176,602
Investments accounted for using the equity method	13,367	8,422
Assets not allocated to the segments		
Financial assets	36,679	36,442
Deferred tax assets and current tax assets	27,062	9,073
Cash and cash equivalents	243,865	306,455
Consolidation	(43,176)	(39,724)
Consolidated assets	**2,630,915**	**2,497,270**

Segment liabilities consist primarily of trade payables, provisions and other liabilities (excluding current tax liabilities). The reconciliation of segment liabilities to consolidated liabilities is shown in the following table:

Reconciliation of segment liabilities to consolidated liabilities — EUR '000

	31/12/2018	31/12/2017
Segment liabilities	560,541	525,005
Liabilities not allocated to the segments		
Financial liabilities	473,767	382,599
Deferred tax liabilities and current tax liabilities	60,786	74,322
Government grants	25,325	26,231
Consolidation	(23,430)	(18,766)
Consolidated liabilities	**1,096,990**	**989,391**

The carrying amounts for segment reporting are based on the same accounting policies applied to the IFRS consolidated financial statements.

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 '000

	2018	2017
Botanic cellulose fibers	1,846,729	1,958,714
Sodium sulfate and black liquor	52,050	49,119
Pulp, wood, energy and other	269,636	243,355
Segment Fibers	**2,168,416**	**2,251,188**
Mechanical and plant engineering and engineering services	42,357	42,271
Segment Technik	**42,357**	**42,271**
Other and consolidation	(34,760)	(34,062)
Revenue as per consolidated income statement	**2,176,013**	**2,259,398**

No single external customer is responsible for more than 10 percent of external revenue.

Information on geographic regions

The following table provides a classification of revenue from external customers by sales market by geographic area.

Revenue from external customers by geographic regions EUR '000

	2018	2017
Austria	100,546	127,243
Europe (excl. Austria, incl. Turkey)	554,773	625,707
Asia	1,325,968	1,283,675
America	167,945	168,973
Rest of the world	19,184	45,591
Segment Fibers	**2,168,416**	**2,251,188**
Austria	14,569	23,641
Europe (excl. Austria, incl. Turkey)	6,089	5,426
Asia	3,344	7,845
America	18,340	5,276
Rest of the world	15	84
Segment Lenzing Technik	**42,357**	**42,271**
Other and consolidation	(34,760)	(34,062)
Revenue as per consolidated income statement	**2,176,013**	**2,259,398**

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

The following table shows non-current assets (excluding financial instruments and tax assets; reconciled to the consolidated figures for total non-current assets) and total assets and acquisition of intangible assets and property, plant and equipment (CAPEX) by geographic region:

Information on non-current assets, total assets and CAPEX by geographic regions EUR '000

	Non-current assets		Total assets		CAPEX	
	31/12/2018	**31/12/2017**	**31/12/2018**	**31/12/2017**	**31/12/2018**	**31/12/2017**
Austria	927,262	850,610	1,274,829	1,185,531	145,081	168,703
Europe (excl. Austria, incl. Turkey)	194,522	200,447	278,181	288,509	14,294	16,294
Asia	299,758	279,956	638,241	594,807	41,606	23,417
America	99,887	66,138	161,866	107,754	56,613	30,342
Subtotal	**1,521,429**	**1,397,151**	**2,353,117**	**2,176,602**	**257,595**	**238,757**
Reconciliation to consolidated figures	73,971	53,051	277,798	320,668	0	0
Consolidated total	**1,595,400**	**1,450,202**	**2,630,915**	**2,497,270**	**257,595**	**238,757**

Assets and CAPEX are allocated according to the geographic location of the assets. The above amounts cover all segments of the Lenzing Group. Additional information on the segments is provided in the management report of the Lenzing Group as at December 31, 2018.

Notes on the Consolidated Income Statement

Note 6. Revenue

The breakdown of revenue is shown in the segment report (see note 5, in particular information on products and services as well as geographic regions).

Revenue results exclusively from contracts with customers in accordance with IFRS 15 (Revenue from Contracts with Customers). Revenue comprises all income generated by the typical business activities of the Lenzing Group.

The Segment Fibers predominantly sells botanic cellulose fibers. In addition, sodium sulfate and black liquor are also sold. Income is recognized at a point in time, and thus when ownership of the product has been transferred to the costumer (i.e. with the transfer of risks), the amount of income and the related costs can be reliably determined and the economic benefits from the transaction will probably flow to the Group.

The Segment Lenzing Technik operates in the field of mechanical and plant engineering and provides engineering services. Part of this income results from contracts with customers which is recognized over time. Revenue generated from contracts with customers recognized over time amounted to EUR 3,113 thousand in the 2018 financial year (2017: EUR 6,792 thousand). Income from contracts with customers recognized over time is recognized according to the stage of completion in line with the cost-to-cost method (see note 25). The cost-to-cost method reflects the actual transfer of a service most reliably since the management also uses the project costs to monitor the course of the project.

Since all performance obligations in the Lenzing Group have a term of a maximum of one year, the remaining performance obligations are not disclosed.

Contract assets amount to EUR 14 thousand as at December 31, 2018 and are recognized under trade receivables (see note 25).

Contract liabilities consist of the following:

Contract liabilities		**EUR '000**
	31/12/2018	**31/12/2017**
Advances received (see note 32)	9,811	12,050
Accruals for discounts and rebates (see note 31)	3,106	1,271
Accruals for rights of return (see note 31)	120	0
Total	**13,036**	**13,321**

The amount of EUR 11,362 thousand reported under contract liabilities as at December 31, 2017 was recognized as revenue in the 2018 financial year.

Note 7. Other operating income

Other operating income consists of the following:

Other operating income		**EUR '000**
	2018	**2017**
Income from green energy bonus	27,032	23,154
Income from recharging of services and other products	8,074	11,294
Income from the release of deferred income for emission certificates and from subsidies	14,257	8,644
Rental income	4,070	3,967
Various other income	3,730	2,880
Total	**57,163**	**49,938**

Note 8. Cost of material and other purchased services

The cost of material and other purchased services comprises the following:

Cost of material and other purchased services		**EUR '000**
	2018	**2017**
Material	1,147,990	1,112,348
Other purchased services	149,274	145,611
Total	**1,297,265**	**1,257,960**

The cost of material comprises primarily the input factors consumed, i.e. pulp (and wood for the internal production of pulp), key chemicals (caustic soda, carbon disulfide and sulfuric acid) and merchandise. The cost of purchased services is related mainly to the consumption of energy.

The cost of the raw material and supplies consumed during the year is based on the weighted average cost method.

Note 9. Personnel expenses

The following table shows the composition of personnel expenses:

Personnel expenses		EUR '000
	2018	2017
Wages and salaries	289,717	272,984
Expenses for severance payments and gratuity	6,203	5,721
Retirement benefit expenses	7,043	6,213
Statutory social security expenses	65,989	59,973
Other employee-related costs	5,547	4,480
Total	**374,499**	**349,371**

The number of employees in the Lenzing Group is as follows:

Number of employees (headcount)		
	2018	2017
Average	6,609	6,308
As at December 31	6,839	6,488

The following table shows the number of employees in Lenzing AG and the Austrian subsidiaries of the Lenzing Group:

Average number of employees in Austria (headcount)		
	2018	2017
Hourly workers	1,838	1,747
Salaried employees	1,388	1,258
Total	**3,226**	**3,006**

Note 10. Other operating expenses

Other operating expenses comprise the following:

Other operating expenses		EUR '000
	2018	2017
Expenses for outgoing freight	80,688	80,669
Expenses for maintenance, repairs and other third-party services	62,048	53,358
Legal, consulting and audit expenses	21,601	21,619
Selling expenses for commissions and advertising	17,870	18,499
Rental and leasing expenses	14,784	14,308
Travel expenses	11,130	10,365
Waste disposal expenses	9,566	7,531
Insurance expenses	8,135	8,250
Fees, contributions, donations and bank charges	6,949	6,700
Foreign exchange losses	6,628	14,582
Registration and defense costs for patents and brands	5,115	5,679
Property taxes and similar taxes	5,103	5,126
Emission certificates	4,124	2,321
Food and beverages	2,179	2,801
Losses on disposals of non-current assets	1,260	231
Losses on receivables	1,152	501
Miscellaneous	13,129	9,834
Total	**271,462**	**262,373**

Note 11. Amortization of intangible assets and depreciation of property, plant and equipment

Amortization and depreciation include the following:

Amortization of intangible assets and depreciation of property, plant and equipment		EUR '000
	2018	2017
Amortization and depreciation	138,530	134,331
Impairment	8,711	221
Total	**147,241**	**134,551**

Amortization of intangible assets includes impairment losses of EUR 0 in 2018 (2017: EUR 221 thousand). Depreciation of property, plant and equipment includes impairment losses of EUR 8,711 thousand (2017: EUR 0), which are also reported under the "Development of property, plant and equipment" (see notes 18 and 19). The impairment losses on intangible assets in 2017 represented development costs for internally generated intangible assets in the Segment Fibers. They were recognized to reflect the insufficient technical and economic usability of the intangible assets. The impairment losses on property, plant and equipment in the 2018 financial year mainly represented prepayments and assets under construction.

Additional details on impairment are provided in note 18.

Note 12. Auditor's fees

The fees agreed for services provided by KPMG Austria GmbH, Linz comprise the following:

Auditors' fees agreed EUR '000

2018	Lenzing AG	Subsidiaries	Total
Audit of the annual financial statements (incl. consolidated financial statements)	265	149	**413**
Other assurance services	104	2	**105**
Other services	0	0	**0**
Total	**368**	**150**	**518**

Auditors' fees agreed (previous year) EUR '000

2017	Lenzing AG	Subsidiaries	Total
Audit of the annual financial statements (incl. consolidated financial statements)	248	136	**384**
Other assurance services	97	0	**97**
Other services	0	0	**0**
Total	**345**	**136**	**481**

The fees for other assurance services consist chiefly of fees for the review of the consolidated half-year financial statements.

Note 13. Income from investments accounted for using the equity method

The result of EUR minus 1,797 thousand (2017: EUR 4,260 thousand) corresponds to the Group's share of the current earnings of associates and joint ventures. The amount reported for 2017 also includes a subsequent gain of EUR 3,037 thousand on the sale of EQUI-Fibres Beteiligungsgesellschaft mbH (EFB), Kelheim, Germany. In the 2018 financial year it includes an impairment of EFB amounting to EUR minus 1,339 thousand (see note 20).

Note 14. Income from non-current and current financial assets

The income from non-current and current financial assets consists of the following items:

Income from non-current and current financial assets EUR '000

	2018	2017
Income from non-current and current financial assets		
Interest income from bank balances, originated loans and receivables and in previous year income from available-for-sale securities	2,027	3,305
Interest income and income from the disposal of debt instruments measured at fair value directly in equity	184	0
Income from dividends for equity instruments measured at fair value directly in equity	237	0
Measurement and gains from the disposal of non-current financial assets measured at fair value	0	370
Gain on the disposal of available-for-sale securities	1,886	0
	4,333	**3,675**
Expenses from non-current and current financial assets		
Measurement of financial assets at amortized cost	(5,426)	(366)
Measurement and loss from the disposal of financial assets at fair value through profit or loss	(4,061)	(854)
Net foreign currency losses from financial assets	0	(1,551)
	(9,487)	**(2,771)**
Total	**(5,154)**	**905**

Note 15. Financing costs

Financing costs comprise the following:

Financing costs EUR '000

	2018	2017
Net foreign currency gains/losses from financial liabilities	(251)	1,310
Interest expense for bonds and private placements	(5,490)	(9,217)
Interest expense for bank loans, other interest and similar expenses	(3,356)	(4,542)
Total	**(9,097)**	**(12,450)**

Note 16. Income tax expense

This item includes current income tax expense as well as income/expense from deferred taxes (changes in deferred tax assets and deferred tax liabilities) and comprises the following:

Income tax expense by source		EUR '000
	2018	2017
Current income tax expense		
Austria	33,547	43,079
Abroad	20,774	33,627
	54,320	**76,707**
Income/expense from deferred taxes	**(3,392)**	**(1,023)**
Total	**50,929**	**75,683**

Income tax expense by cause		EUR '000
	2018	2017
Current income tax expense		
Tax expense for current year	59,362	86,379
Reduction due to the use of tax losses	(170)	(4,426)
Reduction due to the use of tax credits	(4,125)	(5,118)
Adjustment for prior-period income tax	(746)	(128)
	54,320	**76,707**
Income/expense from deferred taxes		
Recognition and reversal of temporary differences	(3,848)	1,284
Effects of changes in tax rates	14	(4,561)
Change in capitalized loss carryforwards	32	(45)
Change in capitalized tax credits	1,662	3,616
Effects of previously unrecognized temporary differences from prior periods	(190)	(236)
Changes in valuation adjustment to deferred tax assets (excl. loss carryforwards)	(1,062)	(1,081)
	(3,392)	**(1,023)**
Total	**50,929**	**75,683**

A tax credit of EUR 4,121 thousand was claimed in the Czech Republic during 2018 (2017: EUR 5,118 thousand). A deferred tax asset of EUR 0 thousand was recognized to profit or loss in 2018 (2017: EUR 1,609 thousand) for a future tax credit because the future utilization is sufficiently certain.

The reconciliation of calculated income tax expense based on the Austrian corporate tax rate of 25 percent (December 31, 2017: 25 percent) to effective income tax expense is shown in the following table:

Tax reconciliation		EUR '000
	2018	2017
Earnings before tax	**199,129**	**357,403**
Calculated income tax expense (25% of earnings before tax)	49,782	89,351
Tax-free income and tax allowances (particularly research allowance)	(2,401)	(2,734)
Non-deductible expenses, withholding taxes and similar permanent differences	2,394	2,948
Income from investments accounted for using the equity method	450	(821)
Effect of different tax rates	(5,704)	(3,467)
Changes in tax rates	14	(4,561)
Tax income from prior periods	(936)	(154)
Exchange rate differences resulting from the translation of deferred tax items from local into functional currency	3,556	433
Change in unrecognized deferred tax assets from loss carryforwards, tax credits and other temporary differences	(2,052)	(7,166)
Tax effect from puttable non-controlling interests	5,601	1,574
Other	226	280
Effective income tax expense	**50,929**	**75,683**

The "tax income from prior periods" includes a tax liability of EUR 386 thousand (2017: tax credit of EUR 217 thousand) from the tax group with B&C Group (also see note 40).

Lenzing AG and the Austrian subsidiaries of the Lenzing Group are subject to an income tax rate of 25 percent (December 31, 2017: 25 percent). The income tax rates for foreign companies range from 11 percent to 34 percent (December 31, 2017: from 16.5 percent to 30.9 percent).

Note 17. Earnings per share

Earnings per share are calculated as follows:

Earnings per share		EUR '000
	2018	2017
Net profit for the year attributable to shareholders of Lenzing AG used in the calculation of earnings per share	148,996	277,978
Weighted average number of shares	26,550,000	26,550,000
	EUR	**EUR**
Diluted = basic	5.61	10.47

The bonus agreement, which was previously recorded under share-based payments, was reclassified in December 2017 to other long-term employee benefits as defined in IAS 19 (see note 40). Therefore, there were no related effects on diluted earnings per share.

Notes to the Consolidated Statement of Financial Position, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity

Note 18. Intangible assets

Development

Intangible assets developed as follows:

Development of intangible assets EUR '000

2018	Goodwill	Concessions, industrial property rights, licenses and similar rights	Internally generated intangible assets	Total
Cost				
As at 01/01/2018	**88,298**	**19,875**	**16,170**	**124,343**
Currency translation adjustment	3,442	(8)	0	**3,434**
Additions	0	2,896	308	**3,204**
Disposals	0	(402)	0	**(402)**
As at 31/12/2018	**91,740**	**22,361**	**16,478**	**130,579**
Accumulated amortization				
As at 01/01/2018	**(74,622)**	**(15,649)**	**(13,711)**	**(103,982)**
Currency translation adjustment	(3,512)	8	0	**(3,503)**
Amortization	0	(1,672)	(485)	**(2,157)**
Impairment	0	0	0	**0**
Disposals	0	398	0	**398**
As at 31/12/2018	**(78,133)**	**(16,915)**	**(14,196)**	**(109,245)**
Carrying amount 01/01/2018	13,676	4,226	2,459	**20,361**
Carrying amount 31/12/2018	**13,606**	**5,446**	**2,281**	**21,334**

Development of intangible assets (previous year) **EUR '000**

2017	Goodwill	Concessions, industrial property rights, licenses and similar rights	Internally generated intangible assets	Total
Cost				
As at 01/01/2017	**98,263**	**17,270**	**15,433**	**130,966**
Currency translation adjustment	(9,966)	(14)	0	**(9,980)**
Additions	0	2,901	737	**3,639**
Disposals	0	(282)	0	**(282)**
As at 31/12/2017	**88,298**	**19,875**	**16,170**	**124,343**
Accumulated amortization				
As at 01/01/2017	**(84,901)**	**(14,729)**	**(13,038)**	**(112,668)**
Currency translation adjustment	10,279	14	0	**10,293**
Amortization	0	(1,216)	(453)	**(1,669)**
Impairment	0	0	(221)	**(221)**
Disposals	0	282	0	**282**
As at 31/12/2017	**(74,622)**	**(15,649)**	**(13,711)**	**(103,982)**
Carrying amount 01/01/2017	13,363	2,541	2,395	**18,298**
Carrying amount 31/12/2017	**13,676**	**4,226**	**2,459**	**20,361**

The revaluation option was not exercised. Amortization is calculated according to the straight line method based on the estimated useful lives. The estimated useful lives of the major asset classes are as follows:

Useful lives for intangible assets

	Years
Software/computer programs	3 to 4
Licenses and other intangible assets	
Purchased	4 to 25
Internally generated	7 to 15

Research and development expenses

The Lenzing Group incurred research and development expenses (calculated in accordance with IFRS) of EUR 27,650 thousand in 2018 (2017: EUR 28,282 thousand).

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

If there is an indication of impairment in accordance with IAS 36, intangible assets and items of property, plant and equipment as well as cash-generating units (CGUs) are tested for impairment. A qualitative analysis is performed at the reporting dates for all consolidated financial statements and interim consolidated financial statements to determine whether there are any indications of impairment or any material year-on-year changes in impaired CGUs. This analysis is based on criteria defined by the management of Lenzing AG. Intangible assets and property, plant and equipment allocated to a CGU that includes goodwill are also tested during the annual impairment testing of goodwill. The CGUs in the Lenzing Group represent, above all, the individual production sites.

The Lenzing Group initially determines the recoverable amount based on the applicable fair value less costs of disposal. The fair value less costs of disposal is derived from budgets and cash flow forecasts which are prepared on a post-tax basis and approved by the Management Board for the next five years. Based on the assumptions used in the previous year, a perpetual yield that includes a sustainable long-term growth rate of 1.0 percent (2017: of 0.9 percent to 1.2 percent) is applied after the detailed planning period. The estimate for the sustainable long-term growth rate generally equals half of the inflation rate expected in the relevant country during the next few years, as projected by an international economic research agency. This value usually tends to offset general inflation. The planned/projected cash flows are discounted to their present value with a discounted cash flow method. 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 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. After-tax WACCs ranging from 6.9 percent to 7.4 percent were used in 2018 (2017: 7.0 percent to 8.0 percent).

The WACCs were, for the most part, determined on the basis of externally available capital market data for comparable companies (in particular, to determine the risk premium). The planning and forecasts of free cash flows are based, above all, on internal and external assumptions for the expected development of selling prices and volumes (especially for fibers and cellulose) and the related costs (in particular, raw materials like cellulose, wood and energy plus labor and taxes), including the expected market environment and market positioning. Other input factors include anticipated investments and the changes in working capital. These internal assumptions are based on past experience, current operating results and the assessment of future developments. They are supplemented by external market assumptions such as sector-specific market studies and economic outlooks.

No impairments of CGUs in accordance with IAS 36 were recognized in the 2018 and 2017 financial years.

Impairment test of the CGU Fiber Site China

The carrying amounts of the intangible assets and property, plant and equipment of the CGU Fiber Site China impaired in previous years totaled EUR 42,944 thousand at December 31, 2018 (December 31, 2017: EUR 46,991 thousand). This amount includes accumulated impairment losses of EUR 25,016 thousand (December 31, 2017: 31,311 thousand) from the previous impairment tests.

Due to an indication of impairment in accordance with IAS 36, the recoverable amount of the CGU Fiber Site China was determined. The recoverable amount showed sufficient coverage of the carrying amounts. The carrying amounts would increase (decrease) in particular if planned EBITDA, the long-term growth rate of perpetual yield increases (decreases) or the weighted average cost of capital (WACC) decreases (increases). In the event of an increase (decrease) in planned EBITDA by 1 percent, the recoverable amount determined would increase (decrease) by EUR 1,749 thousand. In the event of an increase (decrease) of the long-term growth rate of the perpetual yield by 0.1 percent, the recoverable amount will increase by EUR 1,878 thousand or decrease by EUR 1,822 thousand. If the weighted average cost of capital (WACC) decreases (increases) by 0.25 percent, the recoverable amount will increase by EUR 6,646 thousand or decrease by EUR 6,144 thousand.

Impairment test of the CGU Fiber Site Indonesia

Due to an indication of impairment in accordance with IAS 36, the recoverable amount of the CGU Fiber Site Indonesia was determined. The recoverable amount showed sufficient coverage of the carrying amounts.

Impairment test of the CGU Fiber Site USA

The Management Board of Lenzing AG decided to temporarily stop the construction of additional lyocell capacities in Mobile, Alabama, USA. The CGU Fiber Site USA was subsequently tested for impairment. No impairment was determined.

Due to the construction stop, the Management Board also assessed potential uncertainties regarding future usability when resuming the project. Consequently, assets under construction were identified for which both the fair value less cost of disposal and the value in use were estimated to be lower than the carrying amount, and an impairment loss of EUR 8,623 thousand was recognized.

Goodwill and trademark rights with indefinite useful lives

Goodwill was allocated to the following segments/cash-generating units (CGUs) as at the reporting date:

Goodwill by segment/CGU EUR '000

	31/12/2018	31/12/2017
Segment Fibers		
CGU Pulp Site Czech Republic	10,245	10,343
Other CGUs	3,361	3,333
Total	**13,606**	**13,676**

The recoverable amount of the largest CGU with goodwill – the CGU Pulp Site Czech Republic – in 2018 was determined on the basis of fair value less costs of disposal. The measurement of fair value is classified in full under level 3 of the fair value hierarchy. The following individual assumptions from the most recent impairment tests were used for annual testing:

Assumptions for impairment testing of the largest CGU to which goodwill was allocated

	2018 financial year	2017 financial year
CGU Pulp Site Czech Republic		
Average annual operating margin in planning period	27.0%	18.4%
Long-term growth rate of perpetual yield	1.0%	0.9%
After-tax discount rate (WACC)	7.4%	8.0%

The detailed planning period for the CGU Pulp Site Czech Republic covers five years. The average revenue growth during this period equals 1.0 percent per year (2017: 1.9 percent per year).

The estimated fair value less costs of disposal of the CGU Pulp Site Czech Republic exceeds the carrying amount by EUR 369,782 thousand (2017: EUR 75,534 thousand). This estimate is considered appropriate, but corrections may be required if there are changes in the underlying assumptions or circumstances. The following table shows a sensitivity analysis with hypothetical scenarios for the key assumptions as well as the possible changes in value as at the reporting date which, if they occurred, would result in the recoverable amount equaling the carrying amount of the CGU plus goodwill.

Sensitivity analysis of assumptions for impairment testing

	Values relating to key assumptions	Change in values relating to key assumptions for which the recoverable amount would equal the carrying amount
CGU Pulp Site Czech Republic		
Operating margin	27.0%	minus 14.1 percentage points
Long-term growth rate of perpetual yield	1.0%	minus 25.4 percentage points
After-tax discount rate (WACC)	7.4%	plus 9.9 percentage points

Sensitivity analysis of assumptions for impairment testing (previous year)

	Values relating to key assumptions	Change in values relating to key assumptions for which the recoverable amount would equal the carrying amount
CGU Pulp Site Czech Republic		
Operating margin	18.4%	minus 3.8 percentage points
Long-term growth rate of perpetual yield	0.9%	minus 3.8 percentage points
After-tax discount rate (WACC)	8.0%	plus 2.4 percentage points

Note 19. Property, plant and equipment

Development

Property, plant and equipment developed as follows:

Development of property, plant and equipment EUR '000

2018	Land and buildings	Technical equipment and machinery, factory and office equipment	Down payments and assets under construction	Total
Cost				
As at 01/01/2018	**546,760**	**2,531,057**	**203,264**	**3,281,082**
Currency translation adjustment	3,104	17,722	3,703	**24,530**
Additions	26,460	105,329	131,173	**262,962**
Disposals	(527)	(22,237)	(211)	**(22,975)**
Reclassifications	18,866	95,195	(114,061)	**0**
As at 31/12/2018	**594,664**	**2,727,067**	**223,868**	**3,545,599**
Accumulated depreciation				
As at 01/01/2018	**(269,133)**	**(1,641,168)**	**(3,583)**	**(1,913,884)**
Currency translation adjustment	(1,024)	(11,894)	210	**(12,707)**
Depreciation	(16,297)	(120,075)	0	**(136,373)**
Impairment	0	(89)	(8,623)	**(8,711)**
Disposals	448	20,969	0	**21,417**
As at 31/12/2018	**(286,007)**	**(1,752,257)**	**(11,996)**	**(2,050,259)**
Carrying amount 01/01/2018	277,627	889,889	199,681	**1,367,197**
Carrying amount 31/12/2018	**308,657**	**974,810**	**211,873**	**1,495,340**

Development of property, plant and equipment (previous year) **EUR '000**

2017	Land and buildings	Technical equipment and machinery, factory and office equipment	Down payments and assets under construction	Total
Cost				
As at 01/01/2017	**531,845**	**2,508,578**	**76,098**	**3,116,521**
Currency translation adjustment	(13,184)	(61,606)	(3,761)	**(78,551)**
Additions	26,551	51,170	176,981	**254,702**
Disposals	(819)	(10,771)	0	**(11,590)**
Reclassifications	2,368	43,686	(46,054)	**0**
As at 31/12/2017	**546,760**	**2,531,057**	**203,264**	**3,281,082**
Accumulated depreciation				
As at 01/01/2017	**(258,880)**	**(1,574,905)**	**(3,829)**	**(1,837,614)**
Currency translation adjustment	5,151	40,293	246	**45,690**
Depreciation	(15,681)	(116,981)	0	**(132,662)**
Impairment	0	0	0	**0**
Disposals	276	10,425	0	**10,702**
As at 31/12/2017	**(269,133)**	**(1,641,168)**	**(3,583)**	**(1,913,884)**
Carrying amount 01/01/2017	272,966	933,672	72,269	**1,278,907**
Carrying amount 31/12/2017	**277,627**	**889,889**	**199,681**	**1,367,197**

Depreciation is calculated according to the straight-line method based on the estimated useful lives. The estimated useful lives of the major asset classes are as follows:

Useful lives for property, plant and equipment

	Years
Land use rights	30 to 99
Buildings	10 to 50
Fiber production lines	10 to 15
Energy production plants	10 to 25
Other machinery	4 to 20
Vehicles	4 to 20
Office equipment and other fixtures and fittings	4 to 15
IT hardware	3 to 10

If the cost of certain components of an item of property, plant and equipment – measured against the total cost of the item of property, plant and equipment – is significant, such components are accounted for separately and depreciated on a straight-line basis over their expected useful life, unless in exceptional cases another depreciation method is better suited for the usage pattern. A component is considered to be material when its cost exceeds a certain defined threshold. Costs incurred subsequently to add, replace part of or service an item of property, plant and equipment are capitalized provided that based on the component approach they represent the replacement of parts of an entity and the costs can be reliably measured. The carrying amount of a replaced component is derecognized.

All items of property, plant and equipment are tested for impairment in accordance with IAS 36 if there are any indications that these assets may be impaired (see note 18 for details).

Pledges of property, plant and equipment and other collateral security or restrictions on title encumbering property, plant and equipment

Property, plant and equipment also includes assets obtained through finance leases (see note 38). Collateral security in the form of property, plant and equipment has also been provided for Group borrowings (see note 29). The carrying amount of property, plant and equipment pledged to secure financial liabilities totaled EUR 0 thousand (December 31, 2017: EUR 215,607 thousand).

Capitalization of borrowing costs

Borrowing costs of EUR 2,569 thousand for property, plant and equipment were capitalized in 2018 (2017: EUR 1,592 thousand). The applied cost of debt equaled 1.81 percent (2017: 2.5 percent).

The Lenzing Group defines qualifying assets as construction projects or other assets that require at least twelve months to be ready for their intended use or sale. The required entries are recorded under "own work capitalized" and the respective asset account, while depreciation is recorded under "amortization of intangible assets and depreciation of property, plant and equipment". All other borrowing costs are expenses in the period incurred and reported under financial result.

Note 20. Investments accounted for using the equity method

Investments accounted for using the equity method comprise the following:

Carrying amounts of investments accounted for using the equity method EUR '000

	31/12/2018	31/12/2017
EQUI-Fibres Beteiligungsgesellschaft mbH (EFB)	1,629	2,871
LD Florestal S.A. (LDF)	6,834	0
PT Pura Golden Lion (PGL)	3,656	3,598
Other associates	1,154	1,865
Joint ventures	93	88
Total	**13,367**	**8,422**

The major investments accounted for using the equity method include, in particular, the investment in EQUI-Fibres Beteiligungsgesellschaft mbH (EFB), Kelheim, Germany, which is assigned to the Segment Fibers. For the strategic importance of the other investments accounted for using the equity method and their relationship with the Lenzing Group see note 40.

Investments accounted for using the equity method developed as follows:

Development of the carrying amounts of investments accounted for using the equity method EUR '000

2018	EFB	Other associates	Joint ventures	Total
As at 01/01	**2,871**	**5,463**	**88**	**8,422**
Addition to carrying amount due to initial consolidation	0	7,000	0	**7,000**
Result from remeasurement of investments accounted for using the equity method	(1,339)	(19)	0	**(1,357)**
Share in profit or loss of investments accounted for using the equity method	95	(540)	5	**(440)**
Other comprehensive income – remeasurement of defined benefit liability and other	2	0	0	**2**
Other comprehensive income – foreign currency translation differences arising during the year	0	(219)	0	**(220)**
Distributions	0	(40)	0	**(40)**
As at 31/12	**1,629**	**11,645**	**93**	**13,367**

Development of the carrying amounts of investments accounted for using the equity method (previous year) EUR '000

2017	EFB	Other associates	Joint ventures	Total
As at 01/01	**7,028**	**5,630**	**79**	**12,737**
Result from remeasurement of investments accounted for using the equity method	0	0	0	**0**
Share in profit or loss of investments accounted for using the equity method	854	121	8	**983**
Other comprehensive income – remeasurement of defined benefit liability and other	(12)	0	0	**(12)**
Other comprehensive income – foreign currency translation differences arising during the year	0	(247)	1	**(246)**
Distributions	(5,000)	(40)	0	**(5,040)**
As at 31/12	**2,871**	**5,463**	**88**	**8,422**

In December 2017, a subsequent gain of EUR 3,037 thousand was recognized on the partial sale of EFB.

In the 2018 financial year an impairment loss of EUR 1,339 thousand was recognized on the carrying amount of the investment in EFB. This impairment was necessary due to the reduced earning power and uncertainties, in particular after a fire at the plant. The recoverable amount was determined on the basis of a discounted cash flow method. The forecasts of free cash flows of EFB and the buyer were based, in particular, on information, knowledge and internal assumptions about sales prices and quantities expected in the future and production volumes of fibers as well as the necessary related costs (in particular pulp and energy) taking into account the expected market environment and the market positioning.

Moreover, an impairment of EUR 7,797 thousand was recognized on the outstanding purchase price receivables and non-current loans due from the buyer (and its subsidiaries) due to the increased credit default risk (see note 37, credit risk). The carrying amounts of the outstanding purchase price receivables and non-current loans due from the buyer (and its subsidiaries) total EUR 7,643 thousand as at December 31, 2018 (December 31, 2017: EUR 13,028 thousand) and are reported under financial assets. They carry interest at a normal bank interest rate.

The Lenzing Group holds a lien on the remaining shares of EFB. In addition, there is a non-current earnings-related component of the purchase price, which is dependent on the company's future business development and is reported under other non-current assets at the discounted present value of EUR 1,959 thousand as at December 31, 2018 (December 31, 2017: EUR 4,371 thousand). Moreover, the buyer was granted a credit line of up to EUR 13,198 thousand (December 31, 2017: EUR 19,486 thousand), which can be utilized up to December 31, 2025 at the latest in the event of adverse changes in the framework conditions for EFB on the market. The credit line had not been used as at December 31, 2018 and in the previous year as at December 31, 2017.

The Lenzing Group held 20 percent of capital and voting rights as at December 31, 2018 (December 31, 2017: 20 percent). The core business of EFB, which is not publicly listed, is the production and marketing of botanic cellulosic fibers. The relations between the Lenzing Group and this company are described in note 40.

The following table provides summarized financial information on EFB in accordance with IFRS (100 percent):

Summarized financial information on EFB — EUR '000

	31/12/2018	31/12/2017
Non-current assets	76,155	85,829
Current assets	66,828	59,572
Equity	28,386	27,899
Non-current liabilities	56,878	58,622
Current liabilities	57,719	58,881
	2018	**2017**
Revenue	153,743	182,046
Earnings before tax (EBT)	564	6,693
Total comprehensive income	487	4,213
Thereof net profit for the year (from continuing operations)	476	4,272
Thereof other comprehensive income (from continuing operations)	11	(60)

The reconciliation of equity to the carrying amount of the investment in EFB is as follows:

Reconciliation of equity to carrying amount of the investment in EFB — EUR '000

	31/12/2018	31/12/2017
Equity	28,386	27,899
Thereof:		
Group's interest (20%; previous year: 20%)	5,677	5,580
Consolidation and other effects	(63)	(63)
Impairment	(3,985)	(2,646)
Carrying amount	**1,629**	**2,871**

Investments accounted for using the equity method represent investments in associates and joint ventures. The investments in associates represent shares in companies in which the Lenzing Group can exert significant influence over financial and operating policies. Joint ventures are joint arrangements managed by the Lenzing Group together with one or more partners, whereby the Lenzing Group has rights to the net assets of the arrangement.

Note 21. Financial assets

Financial assets comprise the following:

Financial assets — EUR '000

	31/12/2018	31/12/2017
Non-current securities	20,076	18,785
Other equity investments	7,194	1,562
Originated loans	9,409	16,095
Total	**36,679**	**36,442**

Non-current securities are classified as follows:

Non-current securities by asset class		EUR '000
	Market value 31/12/2018	Market value 31/12/2017
Government bonds	5,886	5,579
Other securities and book-entry securities (primarily shares)	14,190	13,206
Total	**20,076**	**18,785**

The Lenzing Group has designated equity instruments of a fair value of EUR 19,772 thousand as measured at "fair value through other comprehensive income" as at December 31, 2018. Non-current securities measured at fair value through other comprehensive income and other equity investments include shares in companies in which a share of less than 20 percent is held. The option to recognize these equity instruments at fair value through other comprehensive income was exercised based on the intent to hold these instruments in the long term. The other equity investments as at December 31, 2018 consist primarily of the EUR 6,682 thousand (December 31, 2017: EUR 1,050 thousand) investment in LP Beteiligungs & Management GmbH, Linz. In the 2018 financial year there was a dividend payout of LP Beteiligungs & Management GmbH, which amounted to EUR 111 thousand.

Note 22. Other non-current assets

Other non-current assets are classified as follows:

Other non-current assets		EUR '000
	31/12/2018	31/12/2017
Other non-current financial assets (particularly from derivatives and other financial receivables)	2,842	5,365
Other non-current non-financial assets (particularly from other taxes)	1,913	3,568
Total	**4,754**	**8,933**

Note 23. Inventories

Inventories include the following components:

Inventories		EUR '000
	31/12/2018	31/12/2017
Raw materials and supplies	229,527	209,400
Work in progress	3,409	2,503
Finished goods and merchandise	158,125	122,658
Prepayments	5,426	5,495
Total	**396,487**	**340,056**

Raw materials and supplies consist primarily of wood for pulp production, pulp and chemicals for cellulose fiber production and various incidentals. The cost of raw materials and supplies is calculated using the weighted average cost method. Finished goods and work in progress include cellulose fibers, sodium sulfate, acetic acid, furfural and products in the Segment Lenzing Technik.

Write-downs totaling EUR 9,683 thousand were recognized to inventories in 2018 (2017: EUR 4,383 thousand). The carrying amount of inventories measured at their net realizable value equaled EUR 254,189 thousand (December 31, 2017: EUR 155,395 thousand). Expenses for inventories, which are included in the cost of material totaled EUR 1,147,990 thousand (2017: EUR 1,112,348 thousand). The carrying amount of inventories pledged to secure financial liabilities amounted to EUR 0 thousand (December 31, 2017: EUR 88,102 thousand).

Note 24. Trade receivables

Trade receivables comprise the following:

Trade receivables		EUR '000
	31/12/2018	31/12/2017
Trade receivables (gross)	313,251	304,654
Bad debt provisions	(13,605)	(11,884)
Total	**299,645**	**292,770**

All trade receivables are classified as current assets. Additional information on trade receivables is provided in note 35 ("Factoring") and note 37 ("Credit risk").

Note 25. Contracts with customers over satisfied time

Contracts with gross amount due from customers		EUR '000
	2018	2017
As at 01/01	**418**	**1,482**
Revenue	1,418	3,572
Advances received	(1)	(1,231)
Completed contracts	(1,821)	(3,406)
As at 31/12	**14**	**418**

Contracts with gross amount due to customers		EUR '000
	2018	2017
As at 01/01	**(776)**	**(1,458)**
Revenue	1,694	3,220
Advances received	(570)	(744)
Completed contracts	(538)	(1,794)
As at 31/12	**(190)**	**(776)**

The requirements for recognition of revenue over time are given on a regular basis for customer contracts in the Segment Lenzing Technik since the Lenzing Group has no alternative use for customer-specific products and it has an enforceable right to payment for performance completed to date.

If progress can be reliably estimated for customer contracts satisfied over time, revenue and costs are recognized in accordance with the progress made on the reporting dates (percentage-of-completion method). Progress is determined by an input method based on the ratio of contract costs incurred by the reporting date to the estimated total contract costs (cost-to-cost method).

Note 26. Other current assets

Other current assets comprise the following:

Other current assets		EUR '000
	31/12/2018	31/12/2017
Other current financial assets		
Derivatives not yet settled (open positions)	2,359	12,370
Receivables relating to the divestiture of an investment	0	1,385
Recharging of maintenance services	6,060	5,640
Receivables from grant commitments	3,350	3,584
Other	8,223	11,686
Total	**19,992**	**34,665**
Other current non-financial assets		
Receivables from other taxes and duties	53,551	59,211
Advance payments made	4,593	2,305
Emission certificates	8,111	6,823
Prepaid expenses	4,772	4,017
Other	1,361	540
Total	**72,389**	**72,896**
Total	**92,380**	**107,562**

Note 27. Equity

Share capital and capital reserves

The share capital of Lenzing AG totaled EUR 27,574,071.43 as at December 31, 2018 (December 31, 2017: EUR 27,574,071.43) and is divided into 26,550,000 zero par value shares (December 31, 2017: 26,550,000 shares). The proportion of share capital attributable to one share equals roughly EUR 1.04. Each ordinary share represents an equal interest in capital and conveys the same rights and obligations, above all the right to a resolved dividend and the right to vote at the Annual General Meeting. The issue price of the shares is fully paid in. No other classes of shares have been issued.

The Annual General Meeting on April 12, 2018 authorized the Management Board – while at the same time canceling the resolutions regarding this matter of the Annual General Meeting of April 22, 2015 – subject to the approval of the Supervisory Board, to increase share capital by up to EUR 13,787,034.68 through the issue of up to 13,274,999 zero par value shares ("authorized capital") – also in tranches – in exchange for cash and/or contributions in kind, within five years from entry in the commercial register. This authorized capital was recorded in the commercial register on May 23, 2018.

In addition, a resolution of the Annual General Meeting on April 12, 2018 authorized the Management Board – while at the same time canceling the resolutions regarding this matter of the Annual General Meeting of April 22, 2015 – to issue, subject to the approval of the Supervisory Board, convertible bonds by April 12, 2023 in one or several tranches that grant or provide for the subscription or conversion right or a subscription or conversion obligation for up to 13,274,999 shares of the company ("contingent capital"). They can be serviced through the contingent capital and/or treasury shares.

The Annual General Meeting on April 12, 2018 also authorized the Management Board – while at the same time canceling the resolutions regarding this matter of the Annual General Meeting of April 20, 2016 and subject to the approval of the Supervisory Board – to purchase treasury shares of the company for a period of 30 months starting on the day of the resolution. The treasury shares acquired by the company may not exceed 10 percent of the company's share capital. The equivalent to be paid for the repurchase must be within a range of +/-25 percent of the weighted average closing price of the last 20 stock exchange days prior to the start of the corresponding repurchasing program of the Lenzing share. The Management Board was also authorized to withdraw repurchased treasury shares without any further resolution by the Annual General Meeting subject to the approval of the Supervisory Board (including the authorization of the Supervisory Board to adopt changes to the articles of association resulting from withdrawing the shares), or to resell them and to determine the conditions of sale. This authorization can be exercised in full, in part and in pursuit of one or several objectives by the company, by a subsidiary (Section 189a no. 7 of the Austrian Commercial Code) or by third parties for the company's account. In addition, the Management was authorized for a period of five years from the date 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 Management Board did not utilize the authorizations in place on or up to December 31, 2018 to increase share capital, issue convertible bonds or repurchase treasury shares during the 2018 financial year.

The capital reserves represent appropriated reserves of Lenzing AG that may only be used to offset an accumulated loss by Lenzing AG. These reserves were created from the inflow of funds received by Lenzing AG from shareholders in excess of share capital.

Other reserves

Other reserves include all accumulated other comprehensive income and consist of the foreign currency translation reserve, the reserve for financial assets measured at fair value through other comprehensive income (December 31, 2017: reserve for available-for-sale financial assets), the hedging reserve and actuarial gains/losses.

The amounts attributable to the components of other comprehensive income in 2018 and 2017 include the following:

Other comprehensive income EUR '000

	2018			2017		
	Before tax	**Tax effect**	**After tax**	**Before tax**	**Tax effect**	**After tax**
Consolidated subsidiaries	15,077	0	15,077	(42,263)	0	(42,263)
Investments accounted for using the equity method	(220)	0	(220)	(246)	0	(246)
Foreign currency translation reserve	**14,858**	**0**	**14,858**	**(42,509)**	**0**	**(42,509)**
Financial assets measured at fair value through other comprehensive income[1]	**1,064**	**(266)**	**798**	**2,718**	**(680)**	**2,039**
Consolidated subsidiaries	(11,654)	2,655	(8,999)	12,960	(2,903)	10,057
Investments accounted for using the equity method	0	0	0	0	0	0
Hedging reserve	**(11,654)**	**2,655**	**(8,999)**	**12,960**	**(2,903)**	**10,057**
Consolidated subsidiaries	99	53	152	1,267	(304)	962
Investments accounted for using the equity method	2	0	2	(12)	0	(12)
Actuarial gains/losses	**101**	**53**	**155**	**1,255**	**(304)**	**950**
Total	**4,369**	**2,442**	**6,811**	**(25,576)**	**(3,887)**	**(29,463)**

1) Was classified under IAS 39 (Financial Instruments: Recognition and Measurement) as “available-for-sale financial assets” in the previous year.

The reserve for hedging cash flows (hedging reserve) developed as follows:

Changes in the hedging reserve EUR '000

	2018	**2017**
Gains/losses recognized in the reporting period from the valuation of cash flow hedges		
From forward foreign exchange contracts	(14,231)	21,493
	(14,231)	**21,493**
Reclassification to profit or loss of amounts relating to cash flow hedges		
From forward foreign exchange contracts	2,577	(8,718)
From other derivatives	0	185
	2,577	**(8,533)**
Total	**(11,654)**	**12,960**

The above amounts from the reclassification to profit or loss of cash flow hedges from forward foreign exchange contracts are reported primarily under revenue as part of earnings before interest and tax (EBIT). The above amounts from the reclassification to profit or loss of cash flow hedges from other derivatives are reported under financial result.

Retained earnings

Retained earnings comprise the following:

Retained earnings EUR '000

	31/12/2018	**31/12/2017**
Unappropriated revenue reserves of Lenzing AG under Austrian law (Austrian Commercial Code – öUGB)	488,249	470,809
Accumulated profits of Lenzing AG under Austrian law (Austrian Commercial Code – öUGB)	132,750	132,750
Retained earnings of the subsidiaries, including the effect of adjusting the financial statements of Lenzing AG and its subsidiaries from local regulations to IFRS	711,803	712,876
Total (excl. other reserves)	**1,332,802**	**1,316,434**

The unappropriated revenue reserves of Lenzing AG can be released at any time and distributed to shareholders as part of accumulated profits. Austrian law only permits the distribution of dividends from accumulated profits as stated in the approved annual financial statements of the parent company prepared in accordance with the Austrian Commercial Code.

The following dividends were approved by the Annual General Meeting and paid to the shareholders of Lenzing AG:

Dividends of Lenzing AG resolved and paid	Total	Number of shares	Dividend per share
	EUR '000		EUR
Dividend for the financial year 2017 resolved at the Annual General Meeting on April 12, 2018 (payment as of April 18, 2018)	132,750	26,550,000	5.00
Dividend for the financial year 2016 resolved at the Annual General Meeting on April 25, 2017 (payment as of May 2, 2017)	111,510	26,550,000	4.20

The Management Board proposes the following use of accumulated profits for 2018 as stated in the annual financial statements of Lenzing AG, which were prepared in accordance with the Austrian Commercial Code:

Proposal on the appropriation of accumulated profits for 2018	EUR '000
Lenzing AG closed the 2018 financial year with profit under Austrian law (öUGB) of	150,190
The allocation to (unappropriated) revenue reserves of	(17,440)
results in accumulated profit of	**132,750**
The Management Board proposes the following appropriation of the accumulated profit:	
Distribution of a EUR 5.00 dividend per share on eligible share capital of EUR 27,574,071.43 or 26,550,000 shares	132,750
Amount carried forward to new account	**0**

The dividend shown in the above proposal is subject to approval by the shareholders at the Annual General Meeting and is therefore still included in equity as at the reporting date.

Non-controlling interests

Non-controlling interests represent the investments held by third parties in consolidated group companies. The group companies with non-controlling interests are listed in note 43 under "Consolidated companies". These are companies in which the Lenzing Group holds a share of less than 100 percent and which are not reported under puttable non-controlling interests.

Non-controlling interests in equity included PT South Pacific Viscose (SPV), Purwakarta, Indonesia, which is assigned to the Segment Fibers. The non-controlling interests in SPV totaled EUR 31,648 thousand as at December 31, 2018 (December 31, 2017: EUR 31,019 thousand). As at December 31, 2018, non-controlling shareholders held 11.92 percent (December 31, 2017: 11.92 percent) of the capital and voting rights in SPV, which is not publicly listed. The core business of SPV is the production and sale of botanic cellulose fibers.

The following table provides summarized financial information on SPV in accordance with IFRS (100 percent):

Summarized financial information on SPV		EUR '000
	31/12/2018	31/12/2017
Non-current assets	238,349	224,687
Current assets	164,151	173,201
Equity	265,608	260,226
Thereof equity attributable to shareholders of Lenzing AG	233,960	229,207
Thereof equity attributable to non-controlling interests	31,648	31,019
Non-current liabilities	48,966	44,134
Current liabilities	87,926	93,528
	2018	2017
Revenue	450,881	499,943
Earnings before tax (EBT)	(5,284)	41,011
Total comprehensive income	5,381	(6,350)
Thereof net profit for the year	(7,880)	29,937
Net profit for the year attributable to shareholders of Lenzing AG	(6,931)	26,369
Net profit for the year attributable to non-controlling interests	(949)	3,569
Thereof other comprehensive income	13,261	(36,287)
Other comprehensive income attributable to shareholders of Lenzing AG	11,680	(31,962)
Other comprehensive income attributable to non-controlling interests	1,581	(4,325)
Cash flow from operating activities	7,777	34,087
Cash flow from investing activities	(17,500)	(20,568)
Cash flow from financing activities	(19,569)	(21,994)
Change in cash and cash equivalents	(29,291)	(8,476)
Dividends paid to non-controlling interests	0	102

Changes to the non-controlling interests in controlled subsidiaries due to the purchase or sale of shares by the Lenzing Group without the loss of control are reported on the consolidated statement of changes in equity. The effects on non-controlling interests are shown below:

Effects of the acquisition and disposal of further shares in controlled subsidiaries EUR '000

	2018	2017
Lenzing Modi Fibers India Private Limited (2018: +0.02%, 2017: +0.01%)	1	1
Increase (+)/decrease (–) of non-controlling interests in equity	**1**	**1**

The following shares of other comprehensive income are attributable to non-controlling interests in the subsidiaries of Lenzing AG:

Other comprehensive income attributable to non-controlling interests EUR '000

	2018	2017
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit liability	166	(190)
Income tax relating to these components of other comprehensive income	(41)	47
Items that may be reclassified to profit or loss		
Foreign operations – foreign currency translation differences arising during the year	1,445	(4,197)
Other comprehensive income – net of tax	**1,569**	**(4,340)**

Note 28. Government grants

The amount accrued under this item resulted primarily from grants for the promotion of investments in economically underdeveloped regions, for investments in environmental protection and for general investment support.

Government grants of EUR 13,007 thousand focussing primarily on support for research activities were recognized to profit or loss in 2018 (2017: EUR 7,197 thousand). Any conditions attached to the grants were fulfilled and repayment, in full or in part, is therefore considered unlikely.

Government grants also included EUR 6,263 thousand of emission certificates as at December 31, 2018 (December 31, 2017: EUR 5,093 thousand). In accordance with Directive 2003/87/EC of the European Parliament and the European Council on a system for trading greenhouse gas emission certificates, a total of 394,144 emission certificates were allocated free of charge to the relevant companies in the Lenzing Group for 2018 through national allocation plans (2017: 402,651 emission certificates).

Emission certificates are capitalized at fair value on the allocation date. The difference between the fair value and the purchase price paid by the company for the emission certificates is recorded under government grants. At the end of each reporting period, a provision is recognized for the certificates used up to that date. The amount of the provision is based on the recognized asset value of the certificates if they are covered by certificates held by the company at this reporting date. If the certificates used exceed the certificates held, the provision is based on the fair value of the certificates (to be purchased subsequently) as at the relevant reporting date. A provision of EUR 760 thousand was recognized as at December 31, 2018 for the insufficient coverage of emission certificates (December 31, 2017: EUR 208 thousand).

Note 29. Financial liabilities

The following table shows the composition of financial liabilities as at December 31:

Financial liabilities	31/12/2018				31/12/2017			EUR '000
	Currency	Nominal value	Carrying amount	Average effective interest in %	Currency	Nominal value	Carrying amount	Average effective interest in %
Private placements								
Fixed interest	EUR	144,500	144,274	2.6	EUR	173,500	173,195	2.6
Floating rate interest	EUR	75,500	75,405	1.2	EUR	75,500	75,373	1.2
			219,679				**248,568**	
Liabilities to banks								
Loans:								
Fixed interest	EUR	54,625	54,625	1.1	EUR	0	0	0.0
Floating rate interest	EUR	44,148	44,148	0.1	EUR	37,397	37,350	1.3
Floating rate interest	USD	0	0	0.0	USD	23,333	19,354	3.5
Operating loans[1]:								
Floating rate interest	EUR	72,282	72,282	0.4	EUR	0	0	0.0
Floating rate interest	CNY	360,000	45,698	4.7	CNY	320,000	41,003	4.5
Floating rate interest	USD	5,063	4,420	2.9	USD	0	0	0.0
			221,173				**97,707**	
Lease liabilities								
Fixed interest	EUR	1,788	1,788	4.0	EUR	1,852	1,852	4.0
			1,788				**1,852**	
Liabilities to other lenders (miscellaneous)								
Fixed interest	EUR	7,794	7,794	0.8	EUR	7,820	7,820	0.8
Fixed and floating rate interest	EUR	19,426	19,426	0.6	EUR	24,210	24,210	0.6
Floating-rate interest	USD	3,055	2,667	3.7	USD	2,930	2,443	3.7
Floating-rate interest	BRL	5,511	1,240	6.0	BRL	0	0	0.0
			31,128				**34,473**	
Total			**473,767**				**382,599**	
Thereof current			166,197				127,270	
Thereof non-current			307,570				255,330	

1) Revolving credit agreements and overdrafts

In the 2010 financial year, the Lenzing Group issued a seven-year bond with a fixed interest rate of 3.875 percent and a nominal value of EUR 120,000 thousand. This bond matured on September 27, 2017.

In the 2012 financial year, the Lenzing Group issued private placements with an issue volume of EUR 200,000 thousand. The terms cover four and seven years with fixed and floating interest rates, respectively, as well as a term of ten years with fixed interest. The average term is approximately six years. The Lenzing Group repaid EUR 40,500 thousand of the existing private placements as scheduled in 2016. In the 2015 financial year, the Lenzing Group reached an agreement to refinance its private placements with a corresponding volume increase. Existing private placements of EUR 89,500 thousand were terminated and re-issued at extended terms. Additional private placements of EUR 60,500 thousand were also issued. Overall these transactions involved the issue of private placements totaling EUR 150,000 thousand, which have an average term of seven years.

In the 2013 financial year, the Lenzing Group issued further private placements with an issue volume of EUR 29,000 thousand and a five-year term with fixed interest. The Lenzing Group repaid these private placements according to plan in December 2018.

The next interest rate adjustment for the floating rate loans and partially fixed rate loans will take place within the next six months, depending on the loan agreement. The conditions for loans that can be utilized multiple times (revolving loans) are fixed for a certain period and generally carry floating interest rates.

Other loans primarily involve obligations to the Austrian fund for the promotion of research in industry ("Forschungsförderungsfonds der gewerblichen Wirtschaft") and the ERP fund as well as loans from non-controlling shareholders.

Of the total reported financial liabilities, EUR 0 thousand (December 31, 2017: EUR 19,456 thousand) are collateralized by real estate liens and other security and EUR 0 thousand (December 31, 2017: EUR 0 thousand) are collateralized by receivables. The financing of the purchase price for the investment in Lenzing Biocel Paskov a.s. and of expenditures on fixed assets was repaid during the 2018 financial year. Therefore, the shares are no longer pledged as of December 31, 2018.

Note 30. Deferred taxes (deferred tax assets and liabilities) and current taxes

Deferred tax assets and liabilities relate to the following items on the statement of financial position:

Deferred tax assets		**EUR '000**
	31/12/2018	**31/12/2017**
Intangible assets	0	1
Property, plant and equipment	6,279	7,848
Financial assets	5,282	6,634
Other assets	14,295	9,954
Provisions	16,926	17,120
Investment grants	275	311
Other liabilities	4,727	4,199
Tax loss carryforwards	3,557	2,152
Tax credits	0	1,668
Gross deferred tax assets – before valuation adjustment	**51,342**	**49,887**
Valuation adjustment to deferred tax assets	(14,367)	(14,324)
Thereof relating to tax loss carryforwards	(3,404)	(1,970)
Gross deferred tax assets	**36,974**	**35,562**
Offsettable against deferred tax liabilities	(31,894)	(31,571)
Net deferred tax assets	**5,080**	**3,991**

Deferred tax liabilities		**EUR '000**
	31/12/2018	**31/12/2017**
Intangible assets	504	451
Property, plant and equipment	70,869	70,809
Financial assets	2,512	1,640
Other assets	1,295	3,001
Special depreciation/amortization for tax purposes	4,837	5,543
Provisions	19	0
Investment grants	487	532
Other liabilities	1,745	2,281
Gross deferred tax liabilities	**82,268**	**84,257**
Offsettable against deferred tax assets	(31,894)	(31,571)
Net deferred tax liabilities	**50,373**	**52,685**

Information on tax credits is provided in note 16.

Of the total gross deferred tax assets, EUR 15,803 thousand (December 31, 2017: EUR 12,282 thousand) are due within one year. Of the total gross deferred tax liabilities, EUR 1,318 thousand (December 31, 2017: EUR 4,912 thousand) are due within one year. The remaining amounts are due in more than one year.

Deferred taxes developed as follows:

Development of deferred taxes		**EUR '000**
	2018	**2017**
As at 01/01	(48,694)	(48,862)
Recognized in profit or loss	3,392	1,023
Recognized in other comprehensive income	2,442	(3,887)
First-time adoption of IFRS 9 (financial instruments)	(1,343)	0
Currency translation adjustment	(1,090)	3,031
As at 31/12	**(45,294)**	**(48,694)**

The Group held tax loss carryforwards of EUR 14,696 thousand (December 31, 2017: EUR 9,309 thousand). The existing tax loss carryforwards can be utilized as follows:

Loss carryforwards (assessment basis)		**EUR '000**
	31/12/2018	**31/12/2017**
Total	**14,696**	**9,309**
Thereof capitalized loss carryforwards	925	1,061
Thereof non-capitalized loss carryforwards	13,771	8,248
Possible expiration of non-capitalized loss carryforwards		
Within 1 year	7,549	54
Within 2 years	1,227	5,844
Within 3 years	0	1,235
Within 4 years	143	62
Within 5 years or longer	4,392	202
Unlimited carryforward	459	851

Net deferred tax assets of EUR 5,080 thousand were recognized as at December 31, 2018 (December 31, 2017: EUR 3,991 thousand), including EUR 33 thousand (December 31, 2017: EUR 45 thousand) in group companies that recorded a loss in 2018 or 2017.

Certain loss carryforwards were not capitalized because their usability is restricted. If all tax loss carryforwards could be utilized in full, the deferred tax assets on loss carryforwards would total EUR 3,557 thousand (December 31, 2017: EUR 2,152 thousand) instead of EUR 153 thousand (December 31, 2017: EUR 182 thousand).

The financial assets and other assets shown under deferred tax assets in the above table include amounts for outstanding partial write-downs to investments in accordance with Section 12 Para. 3 no. 2 of the Austrian Corporation Tax Act ("Siebentelabschreibung", the partial write-downs of investments over a period of seven years for tax purposes) corresponding to a measurement base of EUR 27,418 thousand (December 31, 2017: EUR 27,320 thousand). Partial write-downs of EUR 1,410 thousand were utilized for tax purposes in 2018 (2017: EUR 1,672 thousand).

Deferred tax liabilities were not recognized for temporary differences with a measurement base of EUR 549,784 thousand (December 31, 2017: EUR 513,474 thousand) in connection with investments in subsidiaries, joint ventures and associates and the related proportional share of net assets held by group companies because these differences are not expected to reverse in the foreseeable future.

The receivables from current taxes include prepayments made to foreign taxation authorities. These amounts are recognized when the recoverability is probable, while valuation adjustments are made in all other cases.

The corporate tax group established with the B&C Group was restructured in 2017 and the new head of the group is B&C Holding Österreich GmbH, Vienna.

Lenzing AG and the subsidiaries included in the group tax agreement are members of the tax group established on July 20, 2017 between B&C Holding Österreich GmbH, as the head of the group, and Lenzing AG and other subsidiaries of Lenzing AG, as group members, in accordance with Section 9 of the Austrian Corporation Tax Act.

Group taxation includes the offset of taxable profits and losses between the group members. The deferred tax assets and deferred tax liabilities of the group members are also offset based on their joint tax assessment. Future tax liabilities from the offset of losses from foreign subsidiaries are recognized in the consolidated financial statements without discounting. The group and tax equalization agreement requires Lenzing AG to pay a tax allocation equal to the corporate income tax attributable to the taxable profit of the company and the subsidiaries included in the tax group. The tax allocation payable by Lenzing AG is reduced by any domestic and foreign withholding taxes deductible from the overall group result by the group parent and by any transferred minimum corporate income taxes.

The tax allocation to be paid by Lenzing AG is also reduced by any current losses/loss carryforwards caused by the group parent that can be offset against positive earnings of Lenzing AG's tax group in the assessment year. The tax allocation is reduced by 25 percent (2017: 25 percent) of the corporate tax rate (i.e. currently 6.25 percent; 2017: 6.25 percent) applicable to the current losses/loss carryforwards recorded by the head of the tax group that are offset against positive earnings in an assessment year for the head of the tax group. Tax losses recorded by Lenzing AG and the participating subsidiaries are kept on record and offset against future tax gains. An equalization payment is made as compensation for any losses that are not offset when the contract is terminated.

The Lenzing Group includes the effects of uncertain tax positions in the calculation of current and deferred taxes. Tax claims are recognized at the expected reimbursement amount in cases where the claim is sufficiently certain. The tax returns of the Lenzing Group's subsidiaries are reviewed regularly by the taxation authorities. Appropriate provisions have been recognized for possible future tax obligations based on a number of factors which include interpretations, commentaries and legal decisions relating to the respective tax jurisdiction and past experience. Uncertain tax positions are evaluated on the basis of estimates and assumptions for future events. New information can become available in the future that leads the Group to change its assumptions regarding the appropriateness of tax positions. Any such changes will affect tax expense in the period in which they are identified.

The recoverability of deferred tax assets is generally based on the positive taxable results expected in the future – after the deduction of taxable temporary differences – in line with the forecasts approved by the Management Board. These forecasts are also used for impairment testing (see, in particular, note 18 under "impairment tests of intangible assets and property, plant and equipment" for details). The assessment of unused tax loss carryforwards and tax credits also involves the consideration of utilization requirements.

Note 31. Provisions

The Lenzing Group's provisions are classified as follows:

Provisions EUR '000

	Total		Thereof current		Thereof non-current	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Provisions for pensions and similar obligations						
Pensions and severance payments	103,395	105,389	7,428	6,465	95,967	98,924
Jubilee benefits	15,047	14,588	1,135	1,042	13,912	13,546
	118,442	**119,977**	**8,563**	**7,507**	**109,879**	**112,470**
Other provisions						
Guarantees and warranties	627	664	627	664	0	0
Anticipated losses and other risks	11,384	12,729	1,888	1,850	9,496	10,879
Emission certificates	2,608	1,938	2,608	1,938	0	0
Other	6,101	7,374	101	1,374	6,000	6,000
	20,721	**22,705**	**5,225**	**5,826**	**15,496**	**16,879**
Accruals						
Personnel expenses (non-financial)	62,163	58,211	61,054	55,907	1,109	2,303
Other (financial)	33,018	26,599	33,018	26,509	0	90
	95,181	**84,809**	**94,072**	**82,416**	**1,109**	**2,393**
Total	**234,344**	**227,491**	**107,860**	**95,749**	**126,484**	**131,742**

Provisions for pensions and similar obligations

Pensions and severance payments

The Lenzing Group has entered into obligations for pensions and severance payments from defined benefit plans, which are reported under provisions for pensions and severance payments, and from defined contribution plans.

Defined benefit plans (for pensions and severance payments)

The benefits resulting from the defined benefit plans for pensions and severance payments are dependent on the final salary or wage and the length of service. They do not require any contributions by employees.

The defined benefit pension plans are based on contractual obligations. The Lenzing Group's most important defined benefit pension plan is located in Austria. It applies to employees who joined the Group before January 1, 2000 and decided to remain in the plan. The claims generally arose after a vesting period of at least 10 or 15 service years. A retirement age of 58 to 63 years is assumed for the beneficiaries, depending on their gender. At present, the plan primarily covers employees who have already retired. Qualifying insurance policies were recognized as plan assets in some cases, while coverage for these obligations is also provided by securities that do not qualify as plan assets.

The Lenzing Group also had a pension plan in Hong Kong. This defined benefit pension plan applied to employees who joined the group before January 1, 2000 and decided to remain in the plan. It was financed chiefly by employer contributions to an external pension fund. The amount of the employer's contributions was redefined every three years after an evaluation of the plan's financial position. The claims are settled with a lump sum payment immediately on occurrence of the insured event. On occurrence of the insured event the respective claims of all remaining beneficiaries were settled in the reporting period and the plan was terminated.

The defined benefit severance plans are based on statutory obligations and obligations under collective agreements. The Lenzing Group's most important defined benefit severance plan is located in Austria. This plan entitles employees whose employment relationship is governed by Austrian law and started before January 1, 2003 to a severance payment in specific cases, in particular when they reach the statutory retirement age and in the event of termination by the employer ("old severance payment system"). The amount of the severance payment depends on the employee's salary or wage at the termination of employment and on the length of the employment relationship. There are similar major defined benefit severance plans in Indonesia and the Czech Republic, which apply to all employees irrespective of when they joined the respective company. The defined benefit severance plans are not covered by assets, but are financed entirely through provisions.

The defined benefit pension and severance plans are principally connected with the following risks that influence the amount of the obligations to be recognized:

- **Investment risk**: A decline in the income from plan assets below the discount rate will result in a plan deficit and an increase in the obligations.
- **Interest rate risk**: A decrease in the discount rate due to lower bond interest rates on the capital market will result in an increase in the obligations.
- **Salary and pension trend**: An increase in the actual salary and pension trends over the expected future levels will result in an increase in the obligations.
- **Personnel turnover and departure risk**: A decline in the expected personnel turnover rates will result in an increase in the obligations.
- **Longevity risk**: An increase in the life expectancy of the beneficiaries will result in an increase in the obligations.

The Lenzing Group is also exposed to currency risks in connection with these plans.

The Lenzing Group takes various steps to reduce the risks from defined benefit plans. The related measures include, in particular, the external financing of defined benefit plans with plan assets or the coverage of obligations with securities that do not qualify as plan assets and the settlement of existing defined benefit plans with installment payments. In addition, pension and similar commitments are now only concluded as defined contribution commitments where possible and legally permissible.

The objectives of the investment policy are to create an optimal composition of plan assets and to ensure sufficient coverage for the existing claims of participating employees. The investment strategies (asset allocations) for the plan assets are contractually regulated. A reinsurance policy was concluded for part of the claims from the Austrian pension plan and is reported under plan assets. This policy is a conventional life insurance policy which invests primarily in debt instruments that reflect the maturity profile of the underlying claims and are intended to maintain a high degree of investment security. The Lenzing Group makes no further contributions to this insurance policy. The pension fund which served as plan assets to cover the defined benefit plan in Hong Kong followed an investment policy that was designed to achieve medium-term to long-term performance above the inflation rate and invested primarily in equity instruments to reach this goal.

The composition of plan assets by asset class is shown below:

Composition of plan assets EUR '000

	31/12/2018	31/12/2017
Cash and cash equivalents	0	48
Equity instruments	0	1,063
Debt instruments	0	231
Insurance policies qualifying as plan assets	2,999	3,136
Balance	**2,999**	**4,478**

The fair values of the abovementioned equity and debt instruments were based on price quotations on an active market. The fair value of the insurance policy is not determined on an active market, but corresponds to the reported coverage capital. The plan assets do not include any financial instruments issued by or assets used by the Lenzing Group. The fair value of cash and cash equivalents corresponded to the nominal value as at the reporting date. The actual return on plan assets totaled EUR 238 thousand in 2018 (2017: EUR 343 thousand). The net interest expense from the defined benefit plans (expenses from the accrued interest on the obligations and the return on plan assets) is reported under personnel expenses.

The most important actuarial parameters applied to the defined benefit pension and severance plans are as follows:

Actuarial assumptions for defined benefit pension and severance plans p. a. in %

31/12/2018	Discount rate	Salary increase	Pension increase	Staff turnover deductions
Austria – pensions	1.7	2.5	0.0-3.0	0.0
Austria – severance payments	1.7	2.5	N/A	0.0
Other countries:				
Indonesia	8.0	8.0	N/A	1.0-7.5
Hong Kong	N/A	N/A	N/A	N/A
Czech Republic	1.7	3.6	N/A	0.7
31/12/2017				
Austria – pensions	1.5	2.5	0.0-3.0	0.0
Austria – severance payments	1.6	2.5	N/A	0.1-3.5
Other countries:				
Indonesia	6.8	8.0	N/A	1.0-7.5
Hong Kong	1.8	4.0	N/A	0.0
Czech Republic	1.6	3.0	N/A	0.3

The major obligations from the defined benefit plans are the obligations for pensions and severance payments in the Lenzing Group‘s Austrian companies. The discount rate for these obligations was derived from high-quality fixed-income corporate bonds with at least an AA rating based on an international actuary's standards. Bonds with significantly higher or lower interest rates than the other bonds in their risk class ("statistical outliers") were not included in the calculation. The currency and terms of the bonds used to derive the discount rate are based on the currency and expected terms of the obligations to be settled. The estimated salary and pension increases, which are also considered realistic for the future, were derived from the averages of recent years. Separate employee turnover rates were applied for each company depending on the composition of the workforce and the employees' length of service. The retirement age used for the calculation is based on the applicable legal regulations. Individual, country-specific assumptions were made for each of the other countries to determine the discount rate, salary increases, employee turnover rates and retirement age.

The parameters used to calculate the defined benefit pension plans in Austria included the biometric data from Pagler & Pagler AVÖ 2018 P – the calculation base for pension insurance for salaried employees (December 31, 2017 Pagler & Pagler AVÖ 2008 P – the calculation base for pension insurance for salaried employees).

The following biometric data and assumptions are used in other countries:

- Indonesia: Indonesia mortality table (Tabel Mortalita Indonesia TMI 2011)
- Czech Republic: AVÖ 2018-P (Pagler & Pagler)
- Other: No biometric assumptions were made because of the low number of beneficiaries.

The obligations (carrying amounts) from defined benefit pension and severance plans (incl. restructuring measures) reported in the consolidated statement of financial position comprise the following:

Development of defined benefit plans EUR '000

	Present value of pension and severance payment obligation (DBO)		Fair value of plan assets		Carrying amounts of defined benefit pension and severance plans	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Balance as at 01/01	**109,867**	**113,471**	**4,478**	**4,838**	**105,389**	**108,633**
Service cost						
Current service cost	3,631	3,755	0	0	3,631	3,755
Past service cost	0	(353)	0	0	0	(353)
Net interest	2,343	2,412	57	68	2,286	2,344
Administrative and other costs	0	0	(1)	(1)	1	1
Income and expenses from defined benefit plans recognized on the income statement	**5,974**	**5,814**	**57**	**67**	**5,917**	**5,747**
Remeasurement during the reporting period						
On the basis of demographic assumptions	1,018	0	0	0	1,018	0
On the basis of financial assumptions	(2,322)	(2,528)	0	0	(2,322)	(2,528)
On the basis of experience adjustments	1,400	1,528	0	0	1,400	1,528
On the basis of income from plan assets, excl. amounts included in interest income	0	0	195	267	(195)	(267)
Remeasurement of defined benefit plans included in other comprehensive income	**96**	**(1,000)**	**195**	**267**	**(99)**	**(1,267)**
Cash flows						
Payments made from the plan	(1,608)	(539)	(1,608)	(539)	0	0
Direct payments and contributions by the employer	(7,642)	(5,996)	15	35	(7,657)	(6,031)
Excess plan assets	0	0	(153)	0	153	0
Change in the scope of consolidation and disposal of other business areas	0	0	0	0	0	0
Currency translation adjustment	(293)	(1,883)	15	(190)	(308)	(1,693)
Other reconciliation items	**(9,543)**	**(8,418)**	**(1,731)**	**(693)**	**(7,812)**	**(7,724)**
Balance as at 31/12	**106,394**	**109,867**	**2,999**	**4,478**	**103,395**	**105,389**
Thereof pensions in Austria	24,786	26,078	2,999	3,136	21,787	22,942
Thereof severance payments in Austria	64,868	65,332	0	0	64,868	65,332
Thereof pensions and severance payments in other countries	16,740	18,457	0	1,342	16,740	17,116

Sensitivity analyses are performed to evaluate the risk of changes in the actuarial parameters used to measure the present value of the obligations from defined benefit plans. These sensitivity analyses show the effects on the present value of the obligations from hypothetical changes in key parameters that could have reasonably changed as at the reporting date. One parameter was changed for each analysis, while all other parameters were kept constant. The sensitivity analyses are based on the present values of the obligations as at the reporting date before the deduction of plan assets (gross obligation/DBO).

The sensitivities of the parameters as at the reporting dates are as follows:

Sensitivity analysis of the defined benefit pension and severance payment obligations

31/12/2018	Change in parameters (percentage points)	Decrease in parameter/change in present value of obligation in EUR '000	Increase in parameter/change in present value of obligation in EUR '000
Discount rate	1.0	9,976	(8,603)
Salary increase	1.0	(6,552)	7,426
Pension increase	1.0	(1,929)	2,202

Sensitivity analysis of the defined benefit pension and severance payment obligations (previous year)

31/12/2017	Change in parameters (percentage points)	Decrease in parameter/change in present value of obligation in EUR '000	Increase in parameter/change in present value of obligation in EUR '000
Discount rate	1.0	11,006	(9,447)
Salary increase	1.0	(7,254)	8,267
Pension increase	1.0	(2,056)	2,353

The above sensitivity analyses represent hypothetical changes based on assumptions. Actual deviations from these assumptions will result in other effects. In particular, the parameters changed individually for the analysis may actually correlate with each other. The deduction of plan assets will lead to a further reduction of the effects.

The weighted average terms (durations) of the defined benefit pension and severance payment obligations in years are as follows:

Weighted average durations of the defined benefit pension and severance payment obligations — Years

	31/12/2018	31/12/2017
Austria – pensions	9	9
Austria – severance payments	9-12	10-13
Other countries:		
Indonesia	8	9
Hong Kong	-	7
Czech Republic	10	9

The Lenzing Group expects contributions of EUR 0 thousand to plan assets for the pension and severance plans in the coming year (2017: EUR 32 thousand).

Defined contribution plans (for pensions and severance payments)

The Lenzing Group makes payments to pension funds and similar external funds for defined contribution pension and severance plans. The most significant defined contribution pension and severance plans for the Lenzing Group are located in Austria ("new severance payment system" and individual contractual commitments).

The expenses for defined contribution plans are as follows:

Expenses for defined contribution plans — EUR '000

	2018	2017
Austria – pensions	1,615	1,485
Austria – severance payments	2,009	1,719
Other countries	3,079	2,833
Total	**6,703**	**6,037**

Provisions for jubilee benefits

Collective agreements require Lenzing AG and certain subsidiaries, particularly in Austria and the Czech Republic, to pay jubilee benefits to employees who have been with the company for a certain length of time. In the Austrian companies employees have the option to convert the jubilee benefits into time credits. No assets were segregated from the company and no contributions were made to a pension fund or any other external fund to cover these obligations. The jubilee benefits do not require any contributions by employees.

The obligations from jubilee benefits for employees (long-service bonuses) are considered other long-term employee benefits under IFRS. The net interest expense from jubilee benefits (expenses from the accrued interest on the obligations) is recorded under personnel expenses. The discount rate applied to the Austrian obligations is similar to the discount rate used for the other defined benefit plans. Employee turnover rates were determined separately for each company depending on the composition of the workforce and employees' length of service. Individual, country-specific assumptions were made for the discount rate, employee turnover rates and salary increases in the other countries.

The main actuarial parameters applied to the obligations for jubilee benefits are as follows:

Actuarial assumptions for the jubilee benefit obligations p. a.
in %

31/12/2018	**Discount rate**	**Salary increase**	**Staff turnover deductions**
Austria	1.8	2.5	1.2–4.3
Czech Republic	1.0	3.6	0.7
31/12/2017			
Austria	1.6	2.5	1.2–5.7
Czech Republic	0.8	3.0	0.3

The following table shows the development of the obligation (provision) for jubilee benefits:

Development of the jubilee benefit obligation (provision) — **EUR '000**

	2018	**2017**
Balance on 01/01	**14,588**	**14,693**
Service cost		
Current service cost	803	814
Net interest	226	216
Remeasurement during the reporting period		
On the basis of demographic assumptions	268	0
On the basis of financial assumptions	(302)	(884)
On the basis of experience adjustments	510	320
Income and expenses from defined benefit plans recognized on the income statement	**1,506**	**465**
Cash flows		
Direct payments by employer	(1,046)	(574)
Currency translation adjustment	0	3
Other reconciliation items	**(1,047)**	**(571)**
Balance as at 31/12	**15,047**	**14,588**

Other provisions and accruals

Other provisions and accruals developed as follows:

Development of other provisions and accruals EUR '000

2018	As at 01/01	Currency translation adjustment	Other reclas-sification	Utilization	Reversal	Addition	As at 31/12	Thereof current	Thereof non-current
Other provisions									
Guarantees and warranties	664	0	0	(42)	(320)	325	**627**	627	0
Anticipated losses and other risks	12,729	0	0	(1,575)	(278)	508[1]	**11,384**	1,888	9,496
Emission certificates	1,938	0	0	(1,938)	0	2,609	**2,608**	2,608	0
Other	7,374	3	0	(922)	(392)	39	**6,101**	101	6,000
	22,705	**3**	**0**	**(4,476)**	**(991)**	**3,481**	**20,721**	**5,225**	**15,496**
Accruals									
Personnel expenses (non-financial)	58,211	52	0	(53,485)	(796)	58,182	**62,163**	61,054	1,109
Other (financial)	26,599	354	0	(16,165)	(4,328)	26,558	**33,018**	33,018	0
	84,809	**406**	**0**	**(69,649)**	**(5,124)**	**84,740**	**95,181**	**94,072**	**1,109**
Total	**107,515**	**408**	**0**	**(74,126)**	**(6,115)**	**88,220**	**115,902**	**99,297**	**16,605**

Development of other provisions and accruals (previous year) EUR '000

2017	As at 01/01	Currency translation adjustment	Other reclas-sification	Utilization	Reversal	Addition	As at 31/12	Thereof current	Thereof non-current
Other provisions									
Guarantees and warranties	590	0	0	(50)	(326)	451	**664**	664	0
Anticipated losses and other risks	15,400	0	0	(800)	(2,014)	143[1]	**12,729**	1,850	10,879
Emission certificates	1,852	1	0	(1,785)	(67)	1,937	**1,938**	1,938	0
Other	17,975	(113)	0	(9,034)	(1,965)	510	**7,374**	1,374	6,000
	35,817	**(112)**	**0**	**(11,669)**	**(4,372)**	**3,041**	**22,705**	**5,826**	**16,879**
Accruals									
Personnel expenses (non-financial)	49,913	(552)	1,919	(44,080)	(1,747)	52,757	**58,211**	55,907	2,303
Other (financial)	26,309	(1,626)	0	(18,451)	(3,759)	24,125	**26,599**	26,509	90
	76,222	**(2,177)**	**1,919**	**(62,530)**	**(5,505)**	**76,882**	**84,809**	**82,416**	**2,393**
Total	**112,039**	**(2,290)**	**1,919**	**(74,199)**	**(9,877)**	**79,923**	**107,515**	**88,242**	**19,272**

1) Incl. accrued interest EUR 97 thousand (2017: EUR 143 thousand).

The measurement of provisions is based on past experience, current cost and price information and estimates/appraisals by internal and external experts. The assumptions underlying the provisions are reviewed regularly. The actual values may differ from these assumptions if general conditions develop in contrast to expectations as at the reporting date. Changes are recognized in profit or loss when better information is available and the premises are adjusted accordingly.

The other provisions for guarantees and warranties consist primarily of provisions for warranty risks from the sale of defective products and guaranteed obligations for the benefit of third parties. Other provisions for anticipated losses and other risks include, in particular, provisions for obligations from infrastructure services to be performed and provisions for additional claims from procurement contracts and for other onerous contracts. Other provisions for emission certificates comprise the equivalent value of the emission certificates used.

Miscellaneous other provisions relate primarily to obligations of EUR 6,000 thousand (December 31, 2017: EUR 6,000 thousand) for legal disputes and cover, in particular, the provision for legal proceedings initiated by the Lenzing Group against patent infringements.

Provisions also include accruals. In comparison with provisions in the narrower sense of the term, accruals are generally certain with regard to their underlying cause and only involve an insignificant level of risk concerning their amount and timing. Accruals are reported separately under the development of provisions.

The accruals for personnel costs consist primarily of liabilities for short-term claims by active and former employees (in particular, for unused vacation and compensation time, overtime and performance bonuses).

Other accruals cover, above all, anticipated losses from revenue reductions/increases in expenses from transactions with customers and suppliers (in particular, discounts and rebates) and liabilities for the delivery of goods and the performance of services by third parties which have not yet been invoiced.

The other current provisions and accruals are expected to lead to an outflow of funds within the next twelve months. The outflow of funds arising from the long-term portion of other provisions is dependent on various factors (in particular, guarantee and warranty periods, contract terms and other events):

- The outflow of funds related to the other provisions for guarantees and warranties is expected within the next twelve months.
- The other provisions for anticipated losses and other risks are expected to lead to an outflow of funds as follows:

Expected outflow of funds in connection with other provisions (non-current) for anticipated losses and other risks (estimated as of the reporting date) EUR '000

	31/12/2018	31/12/2017
In the 2nd year	1,081	1,842
In the 3rd to 5th year	3,204	3,080
In the 6th to 10th year	5,211	4,982
Thereafter	0	974
Total	**9,496**	**10,879**

The exact timing of the outflow of funds related to the miscellaneous other provisions (legal disputes) is uncertain at the present time. Previous developments indicate that the outflow of funds is, in all probability, not to be expected within the next twelve months.

Note 32. Other liabilities and trade payables

Other liabilities consist of the following:

Other liabilities		EUR '000
	31/12/2018	31/12/2017
Other non-current financial liabilities (particularly from derivatives)	731	561
Other non-current non-financial liabilities (particularly partial retirement obligations)	3,427	3,254
Total other non-current liabilities	**4,158**	**3,815**
Other current financial liabilities		
Derivatives not yet settled (open positions)	11,573	3,283
Other	2,819	4,032
	14,391	**7,315**
Other current non-financial liabilities		
Liabilities from other taxes	7,475	3,277
Wage and salary liabilities	6,160	6,268
Social security liabilities	5,792	6,068
Advances received	9,811	12,050
Deferred income and other	3,260	3,554
	32,497	**31,217**
Total other current liabilities	**46,888**	**38,532**

Liabilities that are part of reverse factoring agreements are evaluated to determine whether the original trade payable must still be reported or whether it must be derecognized and a new financial liability recognized in accordance with the agreement. The decisive factor is whether the Lenzing Group was released from its original obligation. In cases where there was no release from the original obligation, the Lenzing Group evaluates whether the reverse factoring agreement has led to a new obligation that must be recognized in addition to the trade payable. If that is also not the case, a present value test is carried out to determine whether the reverse factoring agreement has resulted in significant changes to the contractual terms of the trade payable which lead to derecognition of the trade payable and the recognition of a new financial liability.

Suppliers of the Lenzing Group finance their trade receivables from the Lenzing Group with reverse factoring agreements. These suppliers can commission their banks to forward payment for the receivables at an earlier point in time. The present value test indicates that these agreements do not significantly change the contract terms. The agreements do not lead to the reclassification of the involved trade payables to another class of liability under civil law or IFRS regulations from the Lenzing Group's perspective. Consequently, there are no changes to the presentation on the consolidated statement of financial position (under trade payables) or the consolidated statement of cash flows (under cash flow from operating activities). The potentially affected trade payables totaled EUR 133,909 thousand as at December 31, 2018 (December 31, 2017: EUR 107,536 thousand).

Notes to the Consolidated Statement of Cash Flows

Note 33. Disclosures on the Consolidated Statement of Cash Flows

Liquid funds represent cash and cash equivalents as shown on the statement of financial position. Cash and cash equivalents include cash in hand and cash at banks, demand deposits, checks and short-term time deposits as well as liquid current securities with a term of less than three months which are only subject to limited fluctuations in value.

Other non-cash income/expenses in the 2018 financial year includes the allocation of profit or loss to and the measurement result of puttable non-controlling interests totaling EUR 22,276 thousand (2017: EUR 6,298 thousand) as well as impairment losses to inventories of EUR 9,683 thousand (2017: EUR 4,383 thousand) and to financial assets and other non-current assets of EUR 8,273 thousand (2017: EUR 366 thousand). Other non-cash income/expenses also contain unrealized net exchange rate gains/losses and measurement effects from receivables.

The partial sale of EQUI-Fibres Beteiligungsgesellschaft mbH in 2016 resulted in cash inflows of EUR 22,236 thousand in 2017 which are reported under cash flow from investment activity.

Non-cash transactions from the acquisition of intangible assets and property, plant and equipment are not included in cash flow from investing activities for the current period. These transactions essentially involve outstanding payments to suppliers of EUR 8,571 thousand (2017: EUR 19,583 thousand).

Net cash inflow from the sale and disposal of subsidiaries is reported under cash flow from investing activities (also see note 4).

The acquisition of puttable non-controlling interests by the Lenzing Group resulted in payments of EUR 40,620 thousand to the shareholders of the puttable non-controlling interests, which are included in the cash flow from financing activities (see also note 3).

Cash and cash equivalents also include bank accounts with negative balances in cases where netting agreements have been concluded (see note 35).

Reconciliation of financial liabilities — EUR '000

2018		Bond	Private placements	Subtotal bonds and private placements	Bank borrowings	Borrowings from other lenders	Lease liabilities	Subtotal other financial liabilities	Total
As at 01/01		**0**	**248,568**	**248,568**	**97,707**	**34,473**	**1,852**	**134,031**	**382,599**
Cash flows	Increase in financial liabilities				186,037	2,434		188,471	**188,471**
	Repayment of financial liabilities	0	(29,000)	(29,000)	(62,475)	(5,995)	(116)	(68,586)	**(97,586)**
Non-cash changes	Currency translation	0	0	0	(244)	106	0	(137)	**(137)**
	Discounting/accrued interest	0	111	111	148	110	52	310	**421**
	Other changes	0	0	0	0	0	0	0	**0**
As at 31/12		**0**	**219,679**	**219,679**	**221,173**	**31,128**	**1,788**	**254,089**	**473,767**

Reconciliation of financial liabilities (previous year) — EUR '000

2017		Bond	Private placements	Subtotal bonds and private placements	Bank borrowings	Borrowings from other lenders	Lease liabilities	Subtotal other financial liabilities	Total
As at 01/01		**119,922**	**248,457**	**368,379**	**180,504**	**25,875**	**2,756**	**209,134**	**577,513**
Cash flows	Increase in financial liabilities	0	0	0	2,297	13,625	0	15,922	**15,922**
	Repayment of financial liabilities	(120,000)	0	(120,000)	(78,252)	(4,787)	(164)	(83,204)	**(203,204)**
Non-cash changes	Currency translation	0	0	0	(7,148)	(326)	0	(7,473)	**(7,473)**
	Discounting/accured interest	78	111	189	306	86	75	467	**656**
	Other changes	0	0	0	0	0	(815)	(815)	**(815)**
As at 31/12		**0**	**248,568**	**248,568**	**97,707**	**34,473**	**1,852**	**134,031**	**382,599**

Note 34. Capital risk management

General information

The overriding objective of equity and debt management in the Lenzing Group is to optimize the income, costs and assets of the individual operations/business units and of the Group as a whole in order to achieve and maintain sustainably strong economic performance and a sound balance sheet structure. An important role in this process is played by financial leverage capacity, the protection of sufficient liquidity at all times and a clear focus on key cash-related and performance indicators in line with the Group's strategic course and long-term goals. This protects the ability of the group companies to operate on a going concern basis. In addition, the authorized capital and contingent capital give Lenzing AG greater flexibility in raising additional equity in order to take advantage of future market opportunities.

The equity management strategy followed by the Lenzing Group is designed to ensure that Lenzing AG and the other group companies have an adequate equity base to meet local requirements. A couple of loan agreements with banks also include financial covenants, above all concerning the level of equity, the ratio of net financial debt to EBITDA and other financial indicators or financial criteria for the Group or individual or aggregated group companies. A breach of these financial covenants would allow the banks to demand early repayment of the financial liabilities in certain cases. These financial covenants are regularly monitored by the Global Treasury department and are considered in the determination of distributions by the involved group companies. All related capital requirements were met during the 2018 financial year.

Management uses an adjusted equity ratio for internal control purposes. Adjusted equity is calculated in accordance with IFRS and comprises equity as well as investment grants less the related deferred taxes. The adjusted equity ratio (= adjusted equity in relation to total assets) equaled 59.0 percent as at December 31, 2018 (December 31, 2017: 61.2 percent).

Adjusted equity is calculated as follows:

Adjusted equity EUR '000

	31/12/2018	31/12/2017
Equity	1,533,925	1,507,879
Government grants (+)	25,325	26,231
Proportional share of deferred taxes on government grants (–)	(6,250)	(6,417)
Total	**1,553,000**	**1,527,693**

The dividend policy of Lenzing AG, as the parent company of the Lenzing Group, is based on the principles of continuity and a long-term focus in order to support the future development of the company, to distribute dividends to shareholders in line with the company's opportunity and risk situation, and to appropriately reflect the interests of all other stakeholders who are decisive for the company's success.

Net financial debt

The Supervisory Board and Management Board of Lenzing AG regularly review the development of net financial debt because this indicator is an extremely important benchmark not only for the Group's management, but also for the financing banks. The continued optimal development of the Lenzing Group is only possible with convincing internal financing strength as the basis for increased debt capacity.

Interest-bearing financial liabilities are classified as follows:

Interest-bearing financial liabilities EUR '000

	31/12/2018	31/12/2017
Non-current financial liabilities	307,570	255,330
Current financial liabilities	166,197	127,270
Total	**473,767**	**382,599**

Liquid assets consist of the following:

Liquid assets		EUR '000
	31/12/2018	31/12/2017
Cash and cash equivalents	243,865	306,455
Liquid bills of exchange (in trade receivables)	10,530	9,367
Total	**254,395**	**315,822**

Net financial debt in absolute terms and in relation to EBITDA (according to the consolidated income statement) is as follows:

Net financial debt (absolute)		EUR '000
	31/12/2018	31/12/2017
Interest-bearing financial liabilities	473,767	382,599
Liquid assets (–)	(254,395)	(315,822)
Total	**219,373**	**66,777**

Net financial debt in relation to EBITDA		EUR '000
	31/12/2018	31/12/2017
EBITDA	381,980	502,470
Net financial debt/EBITDA	0.6	0.1

Note 35. Disclosures on financial instruments

Carrying amounts, fair values, measurement categories and measurement methods

The following table shows the carrying amounts and fair values of the financial assets and financial liabilities for each class and each IFRS 9 category (December 31, 2017: IAS 39) and reconciles this information to the appropriate line items on the statement of financial position. Other receivables (non-current and current) and other liabilities (non-current and current) as reported on the statement of financial position include financial instruments as well as non-financial assets and liabilities. Therefore, the “no financial instrument“ column allows for a complete reconciliation with the line items on the statement of financial position.

Carrying amounts, category, fair value and fair value hierarchy of financial instruments EUR '000

	Carrying amount							Fair value	
Financial assets as at 31/12/2018	**At amortized cost**	**At fair value through profit or loss**	**At fair value directly in equity**			**No financial instrument**	**Total**	**Fair value**	**Fair value hierarchy**
			Debt instruments	**Equity instruments**	**Cash flow hedges**				
Originated loans	9,409						9,409	9,409	[1]
Non-current securities		1,290	6,208	12,578			20,076	20,076	Level 1
Other equity investments				7,194			7,194	7,194	Level 3
Financial assets	**9,409**	**1,290**	**6,208**	**19,772**	**0**	**0**	**36,679**	**36,679**	
Trade receivables	**299,645**	**0**	**0**	**0**	**0**	**0**	**299,645**	**299,645**	[1]
Derivatives with a positive fair value (cash flow hedges)					1,573		1,573	1,573	Level 2
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)		886					886	886	Level 2
Other	18,416	1,959				74,302	94,676	94,676	Level 3
Other assets (current and non-current)	**18,416**	**2,845**	**0**	**0**	**1,573**	**74,302**	**97,135**	**97,135**	
Cash and cash equivalents	**243,865**	**0**	**0**	**0**	**0**	**0**	**243,865**	**243,865**	[1]
Total	**571,335**	**4,135**	**6,208**	**19,772**	**1,573**	**74,302**	**677,324**	**677,324**	

	Carrying amount					Fair value	
Financial liabilities as at 31/12/2018	**At amortized cost**	**At fair value through profit or loss**	**At fair value directly in equity**	**No financial instrument**	**Total**	**Fair value**	**Fair value hierarchy**
			Cash flow hedges				
Private placements	219,679				219,679	227,129	Level 3
Liabilities to banks	221,173				221,173	221,694	Level 3
Liabilities to other lenders	31,128				31,128	31,248	Level 3
Lease liabilities				1,788	1,788	1,788	[1]
Financial liabilities	**471,980**	**0**	**0**	**1,788**	**473,767**	**481,858**	
Trade payables	**251,721**	**0**	**0**	**0**	**251,721**	**251,721**	[1]
Provisions (current)	**33,018**	**0**	**0**	**74,842**	**107,860**	**107,860**	[1]
Puttable non-controlling interests	**0**	**0**	**0**	**0**	**0**	**0**	
Derivatives with a negative fair value (cash flow hedges)			7,602		7,602	7,602	Level 2
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)		4,702			4,702	4,702	Level 2
Derivatives with a negative fair value (fair value hedges)			0		0		Level 3
Other	2,819			35,924	38,743	38,743	[1]
Other liabilities (current and non-current)	**2,819**	**4,702**	**7,602**	**35,924**	**51,046**	**51,046**	
Total	**759,537**	**4,702**	**7,602**	**112,554**	**884,395**	**892,486**	

1) The carrying amount approximates fair value.

Carrying amounts, category, fair value and fair value hierarchy of financial instruments (previous year) EUR '000

Financial assets as at 31/12/2017	Carrying amount						Fair value	
	At amortized cost (loans and receivables)	At fair value through profit or loss	At fair value directly in equity		No financial instrument	Total	Fair value	Fair value hierarchy
			Available for sale	Cash flow hedges				
Originated loans	16,095					16,095	16,095	1
Non-current securities			18,785			18,785	18,785	Level 1
Other equity investments			1,562[2]			1,562	1,562	1
Financial assets	**16,095**	**0**	**20,347**	**0**	**0**	**36,442**	**36,442**	
Trade receivables	**292,770**	**0**	**0**	**0**	**0**	**292,770**	**292,770**	1
Derivatives with a positive fair value (cash flow hedges)				7,485		7,485	7,485	Level 2
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)		5,185				5,185	5,185	Level 2
Other	27,360				76,464	103,824	103,824	1
Other assets (current and non-current)	**27,360**	**5,185**	**0**	**7,485**	**76,464**	**116,494**	**116,494**	
Cash and cash equivalents	**306,455**	**0**	**0**	**0**	**0**	**306,455**	**306,455**	1
Total	**642,680**	**5,185**	**20,347**	**7,485**	**76,464**	**752,161**	**752,161**	

Financial liabilities as at 31/12/2017	Carrying amount					Fair value	
	At amortized cost	At fair value through profit or loss	At fair value directly in equity	No financial instrument	Total	Fair value	Fair value hierarchy
			Cash flow hedges				
Private placements	248,568				248,568	258,083	Level 3
Liabilities to banks	97,707				97,707	97,855	Level 3
Liabilities to other lenders	34,473				34,473	34,429	Level 3
Lease liabilities				1,852	1,852	1,852	1
Financial liabilities	**380,747**	**0**	**0**	**1,852**	**382,599**	**392,219**	
Trade payables	**218,433**	**0**	**0**	**0**	**218,433**	**218,433**	1
Provisions (current)	**26,509**	**0**	**0**	**69,241**	**95,749**	**95,749**	1
Puttable non-controlling interests	**17,967**	**0**	**0**	**0**	**17,967**	**17,967**	1
Derivatives with a negative fair value (cash flow hedges)			2,528		2,528	2,528	Level 2
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)		1,316			1,316	1,316	Level 2
Financial guarantee contracts		0			0	0	
Other	4,032			34,471	38,503	38,503	1
Other financial liabilities (current and non-current)	**4,032**	**1,316**	**2,528**	**34,471**	**42,347**	**42,347**	
Total	**647,689**	**1,316**	**2,528**	**105,563**	**757,096**	**766,716**	

1) The carrying amount approximates fair value.
2) Measured at cost.

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 directly in equity”. The measurement category “at fair value through profit or loss” is solely used for financial assets that are mandatorily measured at fair value.

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 directly in equity".

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".

With IFRS 9 taking effect, the measurement of equity investments including derivatives designated as a hedge (fair value hedge) is reclassified from the category "at cost" to the category "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 5.4 and 5.8 as at December 31, 2018 (January 1, 2018: 7.6 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 '000

2018	Equity investments	Derivatives with a negative fair value (fair value hedges)
As at 01/01	10,532	(3,387)
Financial assets measured at fair value through other comprehensive income (equity instruments) – net fair value gain/loss on remeasurement recognized during the year	(3,339)	3,387
As at 31/12	**7,194**	**0**

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 31/12/2018 EUR '000

	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)%)	496	0	**496**	(496)	0	**(496)**
Market multiple (+/(1))	1,324	(383)	**942**	(1,324)	383	**(942)**
Change discount to market multiple (+/(10)%)	(331)	0	**(331)**	331	0	**331**

With IFRS 9 taking effect, other financial assets from earn-out agreements are reclassified from the category "at cost" to the category "at fair value through profit or loss". The fair value of these other financial assets is determined based on an income approach. It is to be categorized in level 3 of the fair value hierarchy. The measurement model is based on the planned EBITDA, the weighted average cost of capital (WACC) after tax and the repayment terms.

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

Reconciliation of level 3 fair values of other financial assets EUR '000

	2018
As at 01/01	5,756
Gain/loss included in financial result	(3,656)
Repayment	(141)
As at 31/12	**1,959**

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

Sensitivity analysis of level 3 input factors for other financial assets as at 31/12/2018		EUR '000
	Financial result	
Other financial assets	Increase	Decrease
EBITDA (+/(5)%)	0.5	(0.5)
Discount rate (WACC) after tax (+/(1)%)	(0.4)	0.5
Repayment 2 years earlier	0.1	n/a

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.

The Lenzing Group uses derivative financial instruments to hedge currency 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 defined by IFRS 9 (December 31, 2017: IAS 39) 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.

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.

Offsetting financial assets and liabilities

The Lenzing Group has concluded a number of framework netting agreements (in particular, master netting arrangements). The amounts owed by each counterparty under such agreements on a single day in the same currency based on the total outstanding transactions are aggregated into a single net amount to be paid by one party to the other.

The following tables present information on offsetting financial assets and liabilities in the consolidated statement of financial position on the basis of framework netting agreements. The column "effect of framework netting agreements" shows the amounts which result from these types of agreements, but which do not meet the criteria for offsetting in the IFRS consolidated statement of financial position.

Offsetting financial assets and liabilities EUR '000

Financial assets as at 31/12/2018	Financial assets (gross)	Recognized financial assets (net)	Effect of framework netting agreements	Net amounts
Cash and cash equivalents	243,865	243,865	(2,031)	241,834
Other financial assets - derivative financial instruments with a positive fair value	2,459	2,459	(1,499)	960
Total	**246,324**	**246,324**	**(3,530)**	**242,794**

EUR '000

Financial liabilities as at 31/12/2018	Financial liabilities (gross)	Recognized financial liabilities (net)	Effect of framework netting agreements	Net amounts
Liabilities to banks	221,173	221,173	(2,031)	219,142
Other financial liabilities - derivative financial instruments with a negative fair value	12,304	12,304	(1,499)	10,805
Total	**233,476**	**233,476**	**(3,530)**	**229,946**

Offsetting financial assets and liabilities (previous year) EUR '000

Financial assets as at 31/12/2017	Financial assets (gross)	Recognized financial assets (net)	Effect of framework netting agreements	Net amounts
Cash and cash equivalents	306,455	306,455	0	306,455
Other financial assets – derivative financial instruments with a positive fair value	12,670	12,670	(1,011)	11,659
Total	**319,125**	**319,125**	**(1,011)**	**318,114**

EUR '000

Financial liabilities as at 31/12/2017	Financial liabilities (gross)	Recognized financial liabilities (net)	Effect of framework netting agreements	Net amounts
Liabilities to banks	97,707	97,707	0	97,707
Other financial liabilities - derivative financial instruments with a negative fair value	3,844	3,844	(1,011)	2,834
Total	**101,550**	**101,550**	**(1,011)**	**100,540**

Transfer of financial assets (sale of receivables/factoring)

Factoring agreements are in place which require the banks to purchase certain trade receivables from the Lenzing Group for a revolving monthly nominal amount. The Lenzing Group is entitled to sell these receivables. The agreements have indefinite terms, whereby each party has the right to cancel the agreements with notice and allow them to expire. The factoring agreements had a maximum usable nominal volume of EUR 73,069 thousand as at December 31, 2018 (December 31, 2017: EUR 72,336 thousand). They have been suspended since the 2017 financial year.

Note 36. Net interest and net result from financial instruments and net foreign currency result

Net interest and net result

The following table shows the net interest and net result from financial instruments by class/measurement category in accordance with IFRS 9 (December 31, 2017: IAS 39):

Net interest and net result from financial instruments EUR '000

2018	From interest income	From interest expense	Net interest	From subsequent measurement at fair value through profit or loss	From subsequent measurement at fair value directly in equity	Measured at fair value directly in equity and reclassified to profit or loss	From impairment	From result on disposal	Net result (total)
Financial assets measured at amortized cots	1,869	0	**1,869**	0	0	0	(7,131)	0	**(5,262)**
Financial assets measured at fair value through profit and loss	159	0	**159**	(369)	0	0	(2,478)	(1,214)	**(3,903)**
Equity instruments measured at fair value directly in equity	237	0	**237**	0	1,148	0	0	0	**1,385**
Debt instruments measured at fair value directly in equity	150	0	**150**	0	(76)	(9)	0	33	**99**
Financial liabilities measured at amortized cost	0	(8,846)	**(8,846)**	0	0	0	0	0	**(8,846)**
Total	**2,414**	**(8,846)**	**(6,431)**	**(369)**	**1,072**	**(9)**	**(9,609)**	**(1,181)**	**(16,526)**

Net interest and net result from financial instruments (previous year) EUR '000

2017	From interest income	From interest expense	Net interest	From subsequent measurement at fair value directly in equity	From impairment	Net result (total)
Loans and receivables	2,804	0	2,804	0	(1,762)[1]	**1,041**
Available-for-sale financial assets	502	0	502	2,718	0	**3,220**
Financial liabilities measured at amortized cost	0	(13,759)	(13,759)	0	0	**(13,759)**
Total	**3,305**	**(13,759)**	**(10,454)**	**2,718**	**(1,762)**	**(9,498)**

1) incl. measurement of non-current financial assets

The net result from financial instruments comprises the following: net interest (current interest income and expenses, including the amortization of premiums and discounts and dividends from companies not accounted for using the equity method), gains/losses on fair value measurement which are recognized in profit or loss or directly in equity and the result of impairment losses (recognition and reversal of bad debt provisions/valuation adjustments) and on disposals. Income from equity and debt instruments measured at fair value through other comprehensive income (December 31, 2017: available-for-sale financial assets) includes gains/losses from remeasurement and from the reclassification of remeasurement gains/losses to profit or loss. Net result from financial instruments does not include exchange rate gains/losses (with the exception of financial instruments carried at fair value through profit or loss) or gains/losses from hedging instruments (cash flow hedges).

The change in the bad debt provisions for receivables measured at amortized cost is reported under "other operating expenses".

The component recognized directly in equity from the subsequent measurement of equity and debt instruments measured at fair value directly in equity (December 31, 2017: available-for-sale financial assets) is reported under the "reserve for financial assets measured at fair value through other comprehensive income" (December 31, 2017: "Reserve for available-for sale financial assets"). The remaining components of the net result are included under "income from non-current and current financial assets" and in "financing costs".

Expenses of EUR 699 thousand were recognized under other operating expenses for the provision of loans in 2018 (2017: EUR 1,027 thousand).

Net foreign currency result

Net foreign currency gains/losses are included in the following items: EUR minus 6,628 thousand (2017: EUR minus 14,582 thousand) in other operating income/expenses, EUR plus 1,886 thousand (2017: EUR minus 1,551 thousand) in income from non-current and current financial assets and EUR minus 251 thousand (2017: EUR plus 1,310 thousand) in financing costs.

Note 37. Financial risk management

As an international company, the Lenzing Group is exposed to financial and other market risks. A company-wide risk management system, which is regulated comprehensively in guidelines, has been implemented to identify and assess potential risks at an early stage. This system is designed to achieve maximum risk transparency and provide high-quality information by quantifying all risk categories, with a particular emphasis on risk concentration. The efficiency of group-wide risk management is evaluated and monitored on an ongoing basis by both the internal control system (ICS) and the internal audit department.

The financial risks arising from financial instruments – credit risk, liquidity risk, currency risk (above all with regard to the USD, CNY and CZK), commodity price risk and interest rate risk – are classified as relevant risks for the Lenzing Group. Corresponding hedging measures are used to minimize these risks wherever possible. Acquired shares in external companies are considered long-term investments and, therefore, are not viewed as a relevant market price risk over the short- to medium-term.

Credit risk

Credit risk represents the risk of asset losses that may result from the failure of individual business partners to meet their contractual obligations. The credit risk from transactions involving the provision of goods and services (in particular, trade receivables) is secured to a substantial extent by credit insurance and bank security (guarantees, letters of credit, bills of exchange etc.). Outstanding receivables and customer limits are monitored on an ongoing basis. The credit risk from investments with banks (above all, cash and cash equivalents) and derivatives with a positive market value is reduced by only concluding transactions with counterparties that can demonstrate a sound credit rating.

Receivables are measured individually. Individual bad debt provisions are recognized for receivables if there are indications of credit impairment (individual measurement) and if they are not expected to be collectible in full. This applies especially when the debtor has significant financial difficulties, is in default or has delayed payments or when there is an increased probability that the debtor will enter bankruptcy and the involved receivable is not sufficiently collateralized. The expected loss is low because of the Lenzing Group's comprehensive receivables management (extensive collateralization with credit insurance and bankable security as well as continuous monitoring of accounts receivable and customer limits).

To determine the required impairment for trade receivables for which no individual bad debt provisions were recognized, the defaults of the past years were evaluated in the Lenzing Group. The analysis has shown that there is only an immaterial risk for receivables overdue for a certain period.

The loss ratios are based on historical default rates of the last nine years and are distinguished by companies and periods overdue.

For non-current debt instruments assigned to the category "at fair value directly in equity", originated loans and other financial assets (current and non-current), which are measured at amortized cost, as well as cash and cash equivalents, the calculation of impairment is based on the average default rates. The impairment is based on the default rate per rating for the respective financial instrument. A significant change in credit risk is determined based on the rating and default of payment. Regarding instruments with a low credit risk, the Lenzing Group assumes that the credit risk has not increased significantly since the first default. Consequently, the twelve month credit loss is always recognized for such instruments. Since the expected impairment is immaterial, no expected default is recorded for these financial assets.

The reduced earning power and uncertainties, in particular due to a fire at a plant of the buyer of EFB (including the buyer's subsidiaries) result in a higher default risk for the receivables from these companies. Therefore, the calculation of bad debt provisions for these originated loans was changed from the expected twelve month credit loss to lifetime expected credit loss. The lifetime expected credit loss was determined based on the difference between the contractual payments and all payments expected by the management in the future (see note 20).

Financial assets are considered defaulted when they are overdue for more than 270 days or when it is unlikely that the debtor can meet the obligations without the realization of collateral. This long period of time results from the fact that about 90 percent of trade receivables are insured by credit insurance.

Financial assets are only derecognized directly if the contractual rights to payments cease to exist (particularly in the event of bankruptcy). An impairment loss is reversed up to amortized cost if the reasons for its recognition no longer exist.

The Group considers the risk concentration in trade receivables to be rather low because its customers are based in various countries, operate in different sectors and are active on largely independent markets. A rather small amount of the receivables is overdue and not individually impaired (see table "aging of receivables" below). Important effects for a change in bad debt provisions include possible default of payment by major customers or a general increase of receivables at the reporting date. During the financial year there was no significant increase in defaults. Trade receivables increased slightly as at December 31, 2018.

The bad debt provisions developed as follows:

Development and reconciliation of bad debt provisions EUR '000

	Lifetime expected credit loss (portfolio measurement)	Lifetime expected credit loss (individual measurement)
Trade receivables		
Bad debt provisions as at 01/01/2018	**291**	**11,884**
Transfer to "Lifetime expected credit loss"	0	(230)
Utilization	0	0
Reversal	(70)	(86)
Addition	238	1,642
Currency translation adjustment	0	(65)
Bad debt provisions as at 31/12/2018	**459**	**13,146**

Development and reconciliation of bad debt provisions EUR '000

	Lifetime expected credit loss (individual measurement)
Originated loans at amortized cost	
Bad debt provisions as at 01/01/2018	**2,422**
Utilization	0
Reversal	(19)
Addition	5,426
Currency translation adjustment	434
Bad debt provisions as at 31/12/2018	**8,263**
Other financial assets (non-current and current)	
Bad debt provisions as at 01/01/2018	**1,095**
Utilization	(824)
Reversal	0
Addition	2,478[1]
Currency translation adjustment	0
Bad debt provisions as at 31/12/2018	**2,749**

1) incl. measurement of non-current financial assets

Development of bad debt provisions (previous year) EUR '000

	Originated loans	Trade receivables	Other financial receivables (non-current and current)
Bad debt provisions as at 01/01/2017	**2,429**	**12,008**	**5,216**
Utilization	0	(566)	(5,311)
Reversal	(8)	(283)	0
Addition	0	864	1,190[1]
Currency translation adjustment	1	(139)	0
Bad debt provisions as at 31/12/2017 = 01/01/2018	**2,422**	**11,884**	**1,095**

1) incl. measurement of non-current financial assets

The bad debt provisions for trade receivables include bad debt provisions of EUR 4,000 thousand (2017: EUR 2,750 thousand) for companies accounted for using the equity method.

The bad debt provisions for trade receivables are related primarily to bad debt provisions for overdue, uninsured receivables.

The carrying amount of the impaired receivables is as follows:

Aging and expected credit loss for trade receivables EUR '000

31/12/2018	Gross carrying amount	Expected credit loss
Not overdue	266,612	279
Overdue up to 30 days	26,265	81
Overdue for 31 to 90 days	1,559	15
Overdue for 91 to 365 days	336	5
Overdue for more than one year	80	80
Credit impaired receivables (individual measurement)	18,399	0
Total	**313,251**	**459**

Development of expected credit loss not including credit impaired financial assets EUR '000

Balance as at 31/12/2017	**0**
Adjustment IFRS 9	291
Balance as at 01/01/2018	**291**
Change	168
Balance as at 31/12/2018	**459**

Aging of receivables EUR '000

	Originated loans	Other financial receivables (non-current and current)
Gross carrying amount as at 31/12/2018	**17,672**	**22,833**
Thereof at the reporting date:		
Not overdue	1,766	18,125
Overdue up to 30 days	0	0
Overdue for 31 to 90 days	0	0
Overdue for 91 to 365 days	0	0
Overdue for more than one year	0	0
Thereof impaired	15,906	4,708

Aging of receivables (previous year) EUR '000

	Originated loans	Trade receivables	Other financial receivables (non-current and current)
Carrying amount as at 31/12/2017	**16,095**	**292,770**	**40,030**
Thereof at the reporting date:			
Not overdue	16,095	267,179	38,646
Overdue up to 30 days	0	17,108	0
Overdue for 31 to 90 days	0	3,237	0
Overdue for 91 to 365 days	0	370	0
Overdue for more than one year	0	0	0
Thereof impaired	0	4,877	1,385

Securities in the scope of the impairment provisions of IFRS 9 as well as cash and cash equivalents have a rating between AAA and BBB.

There are currently no doubts concerning the collectability of financial assets that are neither past due nor impaired.

The maximum exposure to credit risk from recognized financial assets is as follows:

Maximum exposure to credit risk from recognized financial assets EUR '000

	31/12/2018	31/12/2017
Carrying amount of asset financial instruments (see note 35)	603,023	675,697
Less risk reduction in relation to receivables due to		
Credit insurance received for trade receivables (not including deductibles)	(152,725)	(125,048)
Guarantees received for trade receivables	(6,129)	(9,330)
Total	**444,169**	**541,319**

The maximum exposure to credit risk from financial guarantee contracts and contingent liabilities is shown in note 42.

Liquidity risk

Liquidity risk represents the risk of not being able to obtain sufficient funds to settle incurred liabilities at all times. The management of liquidity risk has a high priority in the Lenzing Group. Corporate guidelines require uniform, proactive liquidity forecasts and medium-term planning throughout the entire Group. The Lenzing Group continuously monitors the risk of a possible liquidity shortage.

The Lenzing Group had liquid assets totaling EUR 254,395 thousand (Dezember 31, 2017: EUR 315,822 thousand) in the form of cash and cash equivalents, liquid securities and liquid bills of exchange (see note 34). Unused credit facilities of EUR 341,600 thousand were available as at December 31, 2018 (Dezember 31, 2017: EUR 213,754 thousand) to finance necessary working capital and to cover any shortfalls caused by economic cycles. The medium- and long-term financing for the Lenzing Group is provided by equity and financial liabilities, in particular bonds, private placements and bank loans. Current financial liabilities can regularly be extended or refinanced with other lenders. Trade payables provide short-term financing for the goods and services purchased. The liabilities covered by reverse factoring agreements are settled in line with their agreed maturity, whereby the related cash outflows are included in liquidity planning. For this reason, the Group considers the concentration of risk with regard to sufficient financing sources as rather low.

The contractually agreed (undiscounted) interest and principal payments for primary financial liabilities (including financial guarantee contracts) are shown below:

Maturity analysis of non-derivative financial liabilities EUR '000

	Carrying amount 31/12/2018	Cash flows 2019	Cash flows 2020 to 2023	Cash flows from 2024
Private placements	219,679	38,632	175,398	21,337
Liabilities to banks	221,173	127,858	81,594	16,241
Liabilities to other lenders	31,128	7,090	24,585	0
Lease liabilities	1,788	128	319	2,175
Trade payables	251,721	251,721	0	0
Provisions (current – financial)	33,018	33,018	0	0
Puttable non-controlling interests	0	0	0	0
Other financial liabities[1]	2,819	2,819	0	0
Total	**761,325**	**461,265**	**281,897**	**39,753**
Thereof:				
Fixed interest		4,387	9,221	1,745
Fixed and floating rate interest		127	200	0
Floating rate interest		2,983	2,461	146
Repayment		453,769	270,016	37,861

1) The above includes the maximum possible payment obligations from financial guarantee contracts. The amounts are assumed to be due in the first year.

Maturity analysis of non-derivative financial liabilities (previous year) EUR '000

	Carrying amount 31/12/2017	Cash flows 2018	Cash flows 2019 to 2022	Cash flows from 2023
Private placements	248,568	34,400	214,343	21,755
Liabilities to banks	97,707	94,399	6,094	0
Liabilities to other lenders	34,473	6,774	26,551	1,912
Lease liabilities	1,852	128	448	2,175
Trade payables	218,433	218,433	0	0
Provisions (current – financial)	26,509	26,509	0	0
Puttable non-controlling interests	17,967	0	0	17,967
Other financial liabities[1]	4,032	4,032	0	0
Total	**649,540**	**384,675**	**247,435**	**43,809**
Thereof:				
Fixed interest		4,578	11,435	2,121
Fixed and floating rate interest		149	319	7
Floating rate interest		3,566	3,623	0
Repayment		376,382	232,058	41,681

1) The above includes the maximum possible payment obligations from financial guarantee contracts. The amounts are assumed to be due in the first year.

The above tables include all primary financial liabilities held at the reporting date, but exclude estimated future liabilities. Foreign currency amounts were translated with the spot exchange rate in effect at the reporting date. Floating rate interest payments were calculated according to the last interest rates set before the reporting date. Financial liabilities that are repayable at any time are always assigned to the earliest time period.

The contractually agreed (undiscounted) interest and principal payments for derivative financial instruments are as follows:

Maturity analysis of derivative financial instruments EUR '000

	Carrying amount 31/12/2018	Cash flows 2019	Cash flows 2020 to 2023	Cash flows from 2024
Currency derivatives				
Derivatives with a positive fair value (cash flow hedges)	1,573	1,473	100	
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)	886	886	0	
Positive fair value	**2,459**	**2,359**	**100**	**0**
Derivatives with a negative fair value (cash flow hedges)	(7,602)	(6,871)	(731)	
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)	(4,702)	(4,702)	0	
Negative fair value	**(12,304)**	**(11,573)**	**(731)**	**0**
Total	**(9,845)**	**(9,214)**	**(631)**	**0**

Cash flows consist solely of principal payments and do not include any interest components. Fair value: + = receivable, - = liability from the Lenzing Group's perspective

Maturity analysis of derivative financial instruments (previous year) EUR '000

	Carrying amount 31/12/2017	Cash flows 2018	Cash flows 2019 to 2022	Cash flows from 2023
Currency derivatives				
Derivatives with a positive fair value (cash flow hedges)	7,485	7,185	300	
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)	5,185	5,185	0	
Positive fair value	**12,670**	**12,370**	**300**	**0**
Derivatives with a negative fair value (cash flow hedges)	(2,528)	(1,967)	(561)	
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)	(1,316)	(1,316)	0	
Negative fair value	**(3,844)**	**(3,283)**	**(561)**	**0**
Total	**8,826**	**9,087**	**(261)**	**0**

Cash flows consist solely of principal payments and do not include any interest components. Fair value: + = receivable, - = liability from the Lenzing Group's perspective

Currency risk

Cash flows from capital expenditures and the operating business as well as investments and financing in foreign currencies expose the member companies of the Lenzing Group to currency risks. Risks from foreign currencies are hedged as far as possible if they influence the Group's cash flows. In the operating business, the individual group companies are exposed to currency risk in connection with planned incoming and outgoing payments outside their functional currency. Forward foreign exchange contracts, which are recognized at fair value, are used to hedge the exchange rate risk from foreign currency positions arising from expected future transactions in foreign currencies by group companies.

The Lenzing Group operates a fiber production plant in Grimsby, Great Britain. From the current point of view, the GBP devaluation caused by the Brexit referendum is not expected to have any material effects on the Grimsby location or the remainder of the Lenzing Group because the invoices issued by Grimsby are generally not denominated in GBP. The expenses recorded by the Grimsby plant are, for the most part, denominated in GBP and therefore have no negative foreign currency effect. The further development of this situation and its effects on the Lenzing Group cannot be estimated at the present time.

For companies with the same functional currency, the respective net foreign currency exposures are calculated for the following sales year as part of the budgeting process. Foreign currency purchases and sales are aggregated into separate groups for each currency. Approximately 55 percent of the budgeted net exposure for the following financial year was hedged for EUR/USD, the dominant currency pair in the Lenzing Group, as at December 31, 2018 (December 31, 2017: approximately 55 percent). The CNY also plays an important role. The resulting risk concentration at the reporting date can be seen in the following tables (especially the tables on "sensitivity analysis and risk exposure for foreign currency risks").

Translation risk is also regularly assessed and monitored at the Group level. Translation risk represents the risk arising from the consolidation of foreign investments whose functional currency is not the euro. The greatest risk exposure here is in relation to the US dollar.

Instruments to hedge currency risk

Cash flow hedges are allocated to revenue from the operating business in the following financial years in the respective hedged currency. Cash flow hedges whose underlying hedged item was already recognized in profit or loss are used to hedge foreign currency receivables/liabilities that were recognized at the reporting date but do not impact cash until a later time.

The critical terms of payment of the hedged items and hedging instruments (in particular, the nominal value and time of payment) are generally identical or offset one another ("critical terms match"). Therefore, the Management Board considers the offsetting of value changes of the hedged items and hedging instrument resulting from changes in the exchange rate when forming a measurement unit as highly effective. The economic relationship for fair value hedge derivatives for options is ensured as the value development of the hedged item is offset by that of the hedge.

The measurement of the hedged item is offset by the hedge and is therefore effective. Risks of ineffectiveness include the credit risk of a counterparty, a significant change in the credit risk of a contractual party in the hedging relationship or the change of time of payment of the hedged item, reduction of the total invoice amount or price of the hedged item. Risks are always hedged in their entirety. The hedging ratio for the hedged nominal values is 100 percent.

As the invoicing currency was changed in a subsidiary of the Lenzing Group, the hedging of the CNY currency risk was terminated early. The nominal value at the time the hedge accounting ended amounted to CNY 66,830,000. The average hedging rate (CNY/USD) amounted to 6,7778.

Cash flow hedges for currency risks

The nominal values and fair values of the cash flow hedges are as follows as at the reporting dates:

Nominal value, fair value and hedging period of cash flow hedge derivatives for currency risks

	31/12/2018								EUR '000
		Nominal value in '000	Positive fair value	Negative fair value	Net fair value	Hedging period until	Average hedging rate	Change in fair value used to calculate ineffectiveness
Forward foreign exchange contracts								
CNY/CNH-sale / EUR-buy	CNY/CNH	807,900	0	(2,099)	(2,099)	06/2020	8.25	(1,557)
CNY/CNH-sale / GBP-buy	CNY/CNH	190,700	0	(846)	(846)	06/2020	9.15	(713)
CZK-buy / EUR-sale	CZK	196,200	0	(35)	(35)	01/2020	26.23	15
EUR-buy / USD-sale	EUR	9,149	18	(186)	(168)	03/2019	1.16	(168)
EUR-sale / GBP-buy	EUR	2,650	0	(36)	(36)	10/2019	0.90	(33)
USD-buy / CNY-sale	USD	31,250	182	(399)	(217)	01/2020	7.06	(350)
USD-sale / CZK-buy	USD	113,501	854	(1,332)	(478)	02/2020	22.11	(1,114)
USD-sale / EUR-buy	USD	216,377	518	(2,652)	(2,133)	02/2020	1.18	(2,122)
USD-sale / GBP-buy	USD	800	0	(18)	(18)	10/2019	8.24	(18)
Total			**1,573**	**(7,602)**	**(6,029)**			**(6,059)**

Fair value: + = receivable, – = liability from the Lenzing Group's perspective
The hedging period represents the period for the expected cash flows and their recognition in profit or loss.

Nominal value, fair value and hedging period of cash flow hedge derivatives for currency risks (previous year)

	31/12/2017					EUR '000
		Nominal value in '000	Positive fair value	Negative fair value	Net fair value	Hedging period until
Forward foreign exchange contracts						
CNY/CNH-sale / USD-buy	CNY/CNH	69,359	0	(321)	(321)	06/2019
CNY/CNH-sale / EUR-buy	CNY/CNH	646,600	11	(723)	(712)	06/2019
CNY/CNH-sale / GBP-buy	CNY/CNH	145,200	20	(141)	(121)	06/2019
CZK-buy / EUR-sale	CZK	174,800	58	(29)	29	01/2019
EUR-sale / GBP-buy	EUR	8,380	44	(43)	1	01/2019
USD-buy / CNY-sale	USD	39,540	0	(1,174)	(1,174)	03/2019
USD-sale / CZK-buy	USD	93,500	2,569	(98)	2,471	02/2019
USD-sale / EUR-buy	USD	193,294	4,589	0	4,589	07/2019
USD-sale / GBP-buy	USD	10,400	196	(1)	195	12/2018
Total			**7,485**	**(2,528)**	**4,957**	

Fair value: + = receivable, – = liability from the Lenzing Group's perspective
The hedging period represents the period for the expected cash flows and their recognition in profit or loss.

Cash flow hedges for currency risks with the hedged item already recognized in profit or loss

The following table shows the nominal values and fair values of cash flow hedges at the reporting dates in cases where the hedged item was already recognized in profit or loss:

Nominal value and fair value of cash flow hedge derivatives for currency risks with the underlying already recognized in profit or loss

	31/12/2018						EUR '000
		Nominal value in '000	Positive fair value	Negative fair value	Net fair value	Average hedging rate	Change in fair value used to calculate ineffectiveness
Forward foreign exchange contracts							
CNY/CNH-sale / USD-buy	CNY/CNH	11,770	3	(2)	0	6.88	(1)
CNY/CNH-sale / EUR-buy	CNY/CNH	511,300	133	(2,122)	(1,989)	8.19	(1,877)
CNY/CNH-sale / GBP-buy	CNY/CNH	78,200	0	(408)	(408)	9.14	(392)
CNY/CNH-buy/ EUR-sale	CNY/CNH	28,400	23	0	23	7.95	21
CNY/CNH-buy / GBP-sale	CNY/CNH	12,800	8	0	8	8.78	7
USD-buy / CNY-sale	USD	17,050	562	(26)	536	6.63	554
EUR-buy / USD-sale	EUR	380	0	(12)	(12)	1.18	(12)
EUR-sale / GBP-buy	EUR	1,420	1	(17)	(16)	0.89	(16)
CZK-buy / EUR-sale	CZK	7,600	0	(3)	(3)	25.60	(3)
EUR-sale / USD-buy	EUR	227	7	0	7	1.18	7
USD-sale / CZK-buy	USD	10,400	0	(786)	(786)	20.53	(791)
USD-sale / EUR-buy	USD	29,086	150	(1,233)	(1,084)	1.20	(1,084)
USD-sale / GBP-buy	USD	1,100	0	(92)	(92)	1.41	(92)
Total			**886**	**(4,702)**	**(3,816)**		**(3,677)**

Fair value: + = receivable, – = liability from the Lenzing Group's perspective

Nominal value and fair value of cash flow hedge derivatives for currency risks with the underlying already recognized in profit or loss (previous year)

	31/12/2017				EUR '000
		Nominal value in '000	Positive fair value	Negative fair value	Net fair value
Forward foreign exchange contracts					
CNY/CNH-sale / USD-buy	CNY/CNH	35,577	0	(388)	(388)
CNY/CNH-sale / EUR-buy	CNY/CNH	613,700	635	(297)	338
CNY/CNH-sale / GBP-buy	CNY/CNH	78,800	0	(197)	(197)
CNY/CNH-buy/ EUR-sale	CNY/CNH	60,400	0	(2)	(2)
CZK-buy / EUR-sale	CZK	15,000	26	0	26
USD-buy / CNY-sale	USD	5,300	0	(367)	(367)
EUR-sale / GBP-buy	EUR	3,360	1	(65)	(64)
USD-sale / CZK-buy	USD	9,600	1,223	0	1,223
USD-sale / EUR-buy	USD	56,100	3,125	0	3,125
USD-sale / GBP-buy	USD	5,390	175	0	175
Total			**5,185**	**(1,316)**	**3,869**

Fair value: + = receivable, – = liability from the Lenzing Group's perspective

Fair value hedge derivatives for options

The nominal value of fair value hedge derivatives amounts to EUR 11,773 thousand as at December 31, 2018 (December 31, 2017: EUR 11,777 thousand). The fair value of fair value hedge derivatives amounts to EUR 0 thousand as at December 31, 2018 (December 31, 2017: EUR 3,387 thousand).

The carrying amount of the investment amounts to EUR 6,681 thousand as at December 31, 2018 (December 31, 2017: EUR 6,633 thousand). The hedged item is recognized under financial assets. The change in value for the hedged item and the hedge which was used to calculate ineffectiveness amounts to EUR 0,0 thousand as at December 31, 2018 (December 31, 2017: EUR 0 thousand).

The risk management goal is to hedge the value of the investment against value fluctuations. A put/call option is used as a hedge. The hedge ratio is determined based on the nominal value. The hedging instruments run until 2021 and 2022.

Cash flow hedge derivatives for currency risks

The following table shows the carrying amounts, the hedging reserve and the ineffectiveness of the hedged items designated as hedging instruments (purchases and sales):

Disclosures on hedged items of cash flow hedge derivatives for currency risks – ineffectiveness EUR '000

			2018
Currency risks	**Change in fair value used to calculate ineffectiveness**	**Ineffectiveness**	**Line item in the income statement**
Sales	(9,940)	0	Financial result
Purchases	204	0	Financial result
Total	**(9,736)**	**0**	

Development of the hedging reserve EUR '000

			2018
	Hedging reserve	**Cost of hedging**	**Total**
Hedging reserve as at 01/01	4,928	0	**4,928**
Cash flow hedges – changes in fair value recognized during the year	(14,069)	(162)	**(14,231)**
Reclassification to revenue	2,657	(120)	**2,538**
Reclassification to inventories	58	(18)	**39**
Hedging reserve as at 31/12	**(6,426)**	**(300)**	**(6,727)**

Development of the hedging reserve (previous year) EUR '000

	2017
	Hedging reserve
Hedging reserve as at 01/01	(7,847)
Cash flow hedges – changes in fair value recognized during the year	21,493
Reclassification to revenue	(9,219)
Reclassification to inventories	501
Hedging reserve as at 31/12	**4,928**

Sensitivity analysis and exposure for currency risks

The Lenzing Group uses the following assumptions for its sensitivity analysis:

- The sensitivity of profit or loss is based on the receivables and liabilities recognized by the group companies which are denominated in a currency other than the functional currency of the relevant company and the open derivatives from cash flow hedges for currency risks in cases where the hedged item was already recognized in profit or loss as at the reporting date. The carrying amounts of the receivables and liabilities, respectively the nominal values of the derivatives, correspond to the exposure. The individual exposures are presented consistently in relation to the US dollar and euro for the aggregation to the Group's exposure.
- The sensitivity of other comprehensive income as at the reporting date is based on the open derivatives from cash flow hedges for currency risks in cases where the hedged item has not yet been recognized in profit or loss. The nominal value of the open derivatives corresponds to the exposure.

The following tables show the sensitivities and exposure for currency risk as at the reporting dates:

Sensitivity analysis and risk exposure for foreign currency risks (EUR) EUR '000

	31/12/2018			31/12/2017		
	Group exposure in relation to EUR	**Sensitivity to 10% devaluation of the EUR**	**Sensitivity to 10% revaluation of the EUR**	**Group exposure in relation to EUR**	**Sensitivity to 10% devaluation of the EUR**	**Sensitivity to 10% revaluation of the EUR**
EUR-USD	86,056	9,562	(7,823)	36,836	4,093	(3,349)
EUR-GBP	194	22	(18)	(877)	(97)	80
EUR-CNY/CNH	32,749	3,639	(2,977)	12,633	1,404	(1,148)
EUR-CZK	(9,498)	(1,055)	863	(511)	(57)	46
EUR-HKD	(3,340)	(371)	304	(2,165)	(241)	197
EUR-THB	1,799	200	(164)	(18,215)	(2,024)	1,656
Sensitivity of profit or loss (due to receivables and liabilities)		**11,996**	**(9,815)**		**3,078**	**(2,518)**
Sensitivity of other comprehensive income (due to cash flow hedge derivatives)		(24,644)	20,281		(26,643)	23,345
Sensitivity of equity		**(12,648)**	**10,467**		**(23,565)**	**20,826**

Group exposure: + receivable, – liability; sensitivity: + increase in profit/other comprehensive income, - decrease in profit/other comprehensive income

Sensitivity analysis and risk exposure for foreign currency risks (USD/GBP) EUR '000

	31/12/2018			31/12/2017		
	Group exposure in relation to USD/GBP	**Sensitivity to 10% devaluation of the USD/GBP**	**Sensitivity to 10% revaluation of the USD/GBP**	**Group exposure in relation to USD/GBP**	**Sensitivity to 10% devaluation of the USD/GBP**	**Sensitivity to 10% revaluation of the USD/GBP**
USD-IDR	511	57	(46)	6,113	679	(556)
USD-GBP	(2,221)	(247)	202	(302)	(34)	27
USD-CNY/CNH	6,351	706	(577)	14,459	1,607	(1,314)
USD-CZK	(20,307)	(2,256)	1,846	(3,664)	(407)	333
USD-THB	(7,289)	(810)	663	0	0	0
USD-BRL	569	63	(52)	0	0	0
GBP-CNY/CNH	5,418	602	(493)	(130)	(14)	12
GBP-JPY	1,222	136	(111)	0	0	0
Sensitivity of profit or loss (due to receivables and liabilities)		**(1,750)**	**1,431**		**1,831**	**(1,498)**
Sensitivity of other comprehensive income (due to cash flow hedge derivatives)		9,536	(7,307)		7,342	(5,400)
Sensitivity of equity		**7,786**	**(5,876)**		**9,172**	**(6,898)**

Group exposure: + receivable, – liability; sensitivity: + increase in profit/other comprehensive income, - decrease in profit/other comprehensive income

Commodity risk

The gas price risk is hedged physically through supply contracts. The group is also subject to the usual market price risks in connection with its business activities (especially relating to wood, chemicals, pulp and energy) which are not hedged with derivatives or financial instruments, but protected through other measures (above all, long-term and short-term supply contracts with various suppliers).

Interest rate risk

The Lenzing Group is exposed to interest rate risk through its business-related financing and investing activities. Interest rate risks arise through potential changes in the market interest rate. They can lead to a change in the fair value of fixed rate financial instruments and to fluctuations in the cash flows from interest payments for floating rate financial instruments. Interest rate risks and the resulting risk concentrations are managed by monitoring and adjusting the composition of fixed rate and floating rate primary financial instruments on an ongoing basis and by the selective use of derivative financial instruments.

Sensitivity analysis and exposure for interest rate risk

The following tables show the exposure for interest rate risks at the reporting dates in the form of the carrying amounts of interest-bearing primary financial instruments:

Risk exposure for interest rate risks EUR '000

	31/12/2018				
	Fixed interest	Fixed and floating rate interest	Floating rate interest	No interest	Total
Cash and cash equivalents	0	0	243,865	0	**243,865**
Financial assets[1]	3,644	0	0	33,035	**36,679**
Financial liabilities	(208,481)	(19,426)	(245,860)	0	**(473,767)**
Total	**(204,837)**	**(19,426)**	**(1,995)**	**33,035**	**(193,223)**

Risk exposure for interest rate risks (previous year) EUR '000

	31/12/2017				
	Fixed interest	Fixed and floating rate interest	Floating rate interest	No interest	Total
Cash and cash equivalents	0	0	306,455	0	**306,455**
Financial assets[1]	9,444	0	0	26,998	**36,442**
Financial liabilities	(182,866)	(24,210)	(175,523)	0	**(382,599)**
Total	**(173,422)**	**(24,210)**	**130,932**	**26,998**	**(39,702)**

+ Receivables, - liabilities

1) Includes, among others, the GF82 wholesale fund whose income is distributed or reinvested.

Sensitivity analyses are performed for the interest rate risks arising from floating rate financial instruments. They show the effects of hypothetical changes in interest rates on profit or loss, other comprehensive income and equity.

The Lenzing Group uses the following assumptions in its analysis of the interest rate risk arising from floating rate financial instruments:

- The sensitivity analysis includes all floating rate primary financial instruments as at the reporting date.
- The exposure corresponds to the carrying amount of the floating rate financial instruments.

The sensitivities and exposure for the interest rate risks arising from floating rate financial instruments are as follows as at the reporting dates:

Sensitivity analysis for interest rate risks from floating rate financial instruments — **EUR '000**

31/12/2018	Exposure with floating rate interest	Sensitivity to a 100 bp increase in the interest rate level	Sensitivity to a 100 bp decrease in the interest rate level[1]
Cash and cash equivalents	243,865	2,439	(2,439)[2]
Financial liabilities	(245,860)	(2,460)	1,080[3]
Sensitivity of profit or loss/equity	**(1,995)**	**(21)**	**(1,359)**

Sensitivity analysis for interest rate risks from floating rate financial instruments (previous year) — **EUR '000**

31/12/2017	Exposure with floating rate interest	Sensitivity to a 100 bp increase in the interest rate level	Sensitivity to a 100 bp decrease in the interest rate level[1]
Cash and cash equivalents	306,455	3,065	(3,065)[2]
Financial liabilities	(175,523)	(1,758)	1,003[3]
Sensitivity of profit or loss/equity	**130,932**	**1,307**	**(2,062)**

1) A reduction in the basis points results in a proportional decrease in the sensitivity.
2) Assumption that negative interest will we paid
3) The calculation excludes liabilities for which negative interest is not calculated.

Additional information on financial risk management and financial instruments is provided in the risk report of the Lenzing Group's management report as at December 31, 2018.

Disclosures on Leases

Note 38. Finance leases

Property, plant and equipment includes assets obtained through finance leases in which the Lenzing Group is the lessee. The finance leases include, among others, agreements for the modernization of small hydropower plants under which the lessor agrees to construct, operate and maintain power plants as part of the revitalization. All of the energy generated is purchased by Lenzing AG for a contractually agreed fee, part of which serves to cover the investment costs and is considered a contingent lease payment. The ownership of the power plants will be transferred to Lenzing AG after the agreements expire in exchange for the payment of a transfer fee. This lease has a term of 25 years. The Lenzing Group has also concluded finance leases for an industrial primary clarifier and related expansion investments. The ownership of the plant, including the land, can be transferred to Lenzing AG after the agreements expire in exchange for the payment of a transfer fee. This lease has a term of up to 16 years.

The Lenzing Group currently has no finance leases in which it serves as the lessor.

The carrying amount of the leased assets is as follows:

Carrying amount of leased assets EUR '000

2018	Land and buildings	Technical equipment and machinery, factory and office equipment	Total
Cost	8	5,682	**5,690**
Accumulated depreciation	0	(1,677)	**(1,677)**
Carrying amount as at 31/12/2018	**8**	**4,005**	**4,013**

Carrying amount of leased assets (previous year) EUR '000

2017	Land and buildings	Technical equipment and machinery, factory and office equipment	Total
Cost	8	5,782	**5,790**
Accumulated depreciation	0	(1,286)	**(1,286)**
Carrying amount as at 31/12/2017	**8**	**4,496**	**4,504**

The present value of minimum lease payments is as follows:

Minimum lease payments as lessee (finance leases) EUR '000

	31/12/2018				31/12/2017			
	< 1 year	1–5 years	> 5 years	Total	< 1 year	1–5 years	> 5 years	Total
Total future minimum lease payments	128	319	2,175	**2,622**	128	448	2,175	**2,751**
Thereof interest component	(10)	(11)	(813)	**(834)**	(12)	(21)	(866)	**(899)**
Total	**118**	**308**	**1,361**	**1,788**	**115**	**427**	**1,309**	**1,852**

Note 39. Operating leases

The Lenzing Group as the lessee

The Lenzing Group has obligations from rental and lease agreements for property, plant and equipment that are not recognized in the consolidated statement of financial position. Earnings before interest and tax in 2018 include expenses of EUR 14,784 thousand (2017: EUR 14,308 thousand) from rental and lease agreements. These expenses consist primarily of minimum lease payments.

The future minimum lease payments during the non-cancellable term of these leases relate to IT equipment, motor vehicles, rail cars and office and storage premises and are as follows, classified by year:

Minimum lease payments as lessee (operating leases) EUR '000

	31/12/2018	31/12/2017
In the following year	8,537	8,378
In the following 2–5 years	12,648	9,769
Thereafter	1,250	732
Total	**22,435**	**18,879**

The conditions of the main operating leases can be summarized as follows:

- **IT equipment**: The leases have a term of up to three years, and there are no price adjustment clauses.
- **Motor vehicles**: The leases have a term of up to five years. These agreements do not include an option to acquire the vehicles at the end of the contract term and there are no price adjustment clauses.
- **Rail cars**: The leases have a term of up to twelve years and can be canceled after a minimum period. Some of the leases have price adjustment clauses.
- **Office and storage premises**: The leases have a term of up to five years and do not include an option to purchase the office and storage premises at the end of the contract term. Some of the leases include extension options and price adjustment clauses.
- **Wastewater treatment plant:** The lease has a term of five years. After five years the lease can be extended by three years. The agreement does not include an option to acquire the wastewater treatment plant at the end of the contract term and there are no price adjustment clauses.

The Lenzing Group as the lessor

The future minimum lease payments during the non-cancellable term of the leases relate primarily to land and buildings and are as follows, classified by year:

Minimum lease payments as lessor (operating leases) EUR '000

	31/12/2018	31/12/2017
In the following year	3,743	4,106
In the following 2–5 years	9,259	9,160
Thereafter	6,882	7,967
Total	**19,884**	**21,233**

The most important lease involves land on which a recycling plant is operated. The lease payments are indexed. The lease was concluded for an indefinite term and can be canceled at the earliest as at December 31, 2029, subject to a six-year notice period.

Disclosures on Related Parties and Executive Bodies

Note 40. Related party disclosures

Overview

Related parties of the Lenzing Group include, in particular, the member companies of the B&C Group together with its subsidiaries, joint ventures and associates and its corporate bodies (executive board/management and supervisory board, where applicable) as well as close relatives of the members of the corporate bodies and companies under their influence (see note 1 "Description of the company and its business activities" and note 41). The amounts and transactions between Lenzing AG and its consolidated subsidiaries are eliminated through consolidation and are not discussed further in this section.

B&C Privatstiftung is managed by a board of trustees. No member of the Management Board of Lenzing AG is a member of this board of trustees or the management/management board of a subsidiary of B&C Privatstiftung, with the exception of subsidiaries of the Lenzing Group. The Lenzing Group has no influence over the business activities of B&C Privatstiftung.

The members of the corporate bodies of Lenzing AG (in particular, the Supervisory Board) and the above-mentioned entities are, in some cases, also members of the corporate bodies or shareholders of other companies with which Lenzing AG maintains ordinary business relationships. The Lenzing Group maintains ordinary business relationships with banks that involve financing, investing and derivatives.

Relationship with related companies

In connection with the tax group established with B&C Group (see note 30), the Lenzing Group recognized a tax credit of EUR 386 thousand through profit or loss in 2018 (2017: tax liability of EUR 217 thousand). Contractual obligations resulted in the payment or advance payment of tax allocations totaling EUR 39,251 thousand in 2018 (2017: EUR 50,072 thousand). The Lenzing Group recognized a receivable of EUR 2,391 thousand towards B&C Group from the tax allocation, after the deduction of advance payments, as at December 31, 2018 (December 31, 2017: liability of EUR 4,671 thousand). Income tax expense of EUR 32,392 thousand was recognized in 2018 as a result of the tax allocation to B&C Group (2017: EUR 42,718 thousand).

Relationships with companies accounted for using the equity method and their material subsidiaries

Transactions with companies accounted for using the equity method and their material subsidiaries relate primarily to:

Material relationships with companies accounted for using the equity method

EQUI-Fibres Beteiligungsgesellschaft mbH and its subsidiaries (EFB)	Distribution of fibers, delivery of pulp, loan assignment
Lenzing Papier GmbH (LPP):	Provision of infrastructure and administrative services
RVL Reststoffverwertung Lenzing GmbH (RVL):	Operation of a recycling plant and purchase of the generated steam; rental of land
Gemeinnützige Siedlungsgesellschaft m.b.H. für den Bezirk Vöcklabruck (GSG):	Provision of infrastructure and administrative services
PT. Pura Golden Lion (PGL):	Loan liability
Wood Paskov s.r.o. (LWP):	Purchase of wood
LD Florestal S.A. (LDF):	Loan liability

The scope of material transactions and the outstanding balances with companies accounted for using the equity method and their major subsidiaries are as follows:

Relationships with companies accounted for using the equity method and their material subsidiaries EUR '000

	Associates		Joint ventures	
	2018	2017	2018	2017
Goods and services provided and other income	57,654	76,645	11,479	11,471
Goods and services received and other expenses	1,666	35,685	11,819	11,623
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Receivables	13,240	21,020	7	12
Liabilities	3,927	5,347	17	7

Bad debt provisions of EUR 1,250 thousand for trade receivables from companies accounted for using the equity method were recognized to profit or loss as expense in 2018 (2017: EUR 750 thousand).

Kelheim Fibers GmbH, Kelheim, Germany, a subsidiary of the equity-accounted investee EQUI-Fibres Beteiligungsgesellschaft mbH, Kelheim, Germany, received a long-term, unsecured loan of EUR 5,000 thousand from Lenzing AG in 2017. The interest reflects standard bank rates. An impairment loss on this loan of EUR 949 thousand was recognized to profit or loss in the 2018 financial year.

LD Florestal S.A. Sao Paulo, Brazil, which is accounted for using the equity method, issued an unsecured loan of EUR 13,161 thousand to the fully consolidated subsidiary LD Celulose S.A., Sao Paulo, Brazil in 2018, which carries standard bank interest rates. EUR 1,240 thousand of the loan were drawn down as at December 31, 2018.

There were no major transactions with the other non-consolidated subsidiaries in 2017 and 2018.

Relationships with members of the Management Board and Supervisory Board of Lenzing AG

The fixed and variable current remuneration recognized by Lenzing AG for the active members of the Management Board are as follows:

Fixed and variable current remuneration expensed for active members of the Management Board EUR '000

	Stefan Doboczky		Robert van de Kerkhof		Thomas Obendrauf		Heiko Arnold[1]		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Fixed current remuneration	778	643	437	437	397	397	398	328	2,010	1,805
Variable current remuneration	588	1,732	213	654	250	760	272	181	1,324	3,326
Total	**1,366**	**2,374**	**650**	**1,091**	**647**	**1,157**	**670**	**509**	**3,333**	**5,131**

1) Member of the Management Board since May 1, 2017.

The above total of EUR 3,333 thousand reported for 2018 (2017: EUR 5,131 thousand) includes short-term employee benefits (fixed and variable current remuneration). The active members of the Management Board were also granted post-employment benefits of EUR 236 thousand (2017: EUR 216 thousand) in the form of company pension and severance plans. In addition, the provisions for the entitlements from long-term bonus models for active members of the Management Board (other long-term employee benefits) were increased by EUR 1,940 thousand through profit or loss in 2018 (2017: EUR 1,501 thousand).

In accordance with the contracts valid in the 2018 financial year, the benchmark for the long-term bonus component for all members of the Management Board is the increase in the value of the Lenzing Group, computed according to an agreed formula, over a period of several years (also including EBITDA and net debt). The bonus payments are dependent on the attainment of a minimum increase in value and have an upper limit. If an offer by the company to extend the employment contract is rejected after the end of the current contract term, any existing bonus claim is reduced accordingly. Payment is made in cash and is classified as other long-term employee benefits in accordance with IAS 19.

In connection with the reappointment of Stefan Doboczky in December 2017 for the period from June 1, 2018 to December 31, 2022 ("new contract"), the agreed partial payment in the form of shares based on the employment contract for the period from June 1, 2015 to May 31, 2018 ("old contract") was converted to full cash payment. As in the previous years, EUR 743 thousand were recognized as an expense in 2017 for the bonus entitlement to be settled in equity instruments and reported under personnel expenses as share-based payment under IFRS 2. At the same time, retained earnings were increased by an equal amount. The valuation of the share-based payment was made taking into account discounting effects and the probability of utilization, but excluding expected dividends. The change to full cash settlement resulted in the classification of the commitment under other long-term employee benefits in accordance with IAS 19 and a reclassification from retained earnings to provisions. The long-term bonus under the old contract is paid equally in 2018 and 2019 unless Stefan Doboczky resigns from his mandate before that time.

Since the Management Board mandate of Thomas Obendrauf has been extended (until June 30, 2022), the secondary condition to the full entitlement has now been met. Therefore, a provision was recognized for the first time as at December 31, 2018. The payment will be made in 2019.

In addition to the extension of the mandate of Thomas Obendrauf, the Management Board mandate of Robert van de Kerkhof was also extended (until December 31, 2023). In connection with these extensions, the contracts of all four members of the Management Board were rewritten in January 2019, in particular with respect to the provisions regarding variable remuneration components. The new benchmark for the long-term bonus component consists of selected key indicators of the Lenzing Group, each over a three-year calculation period. During these periods, the company's capital market performance will be measured in comparison with a group of selected publicly listed companies. To this end, the total shareholder return, i.e. the development of the share price including the dividend payout, is determined and compared with the peer group. The long-term bonus component will in the future be paid out in tranches upon expiry of the respective calculation period independent of an extension of the Management Board mandate.

The expenses for the active members of the Supervisory Board of Lenzing AG (short-term employee benefits in the form of remuneration and attendance fees for the Supervisory Board members and change of provisions) amounted to EUR 906 thousand in 2018 (2017: EUR 789 thousand).

The remuneration expensed for key management personnel, which comprises the active members of the Management Board and Supervisory Board of Lenzing AG, in line with their functions is summarized below (including changes in provisions):

Remuneration for key management personnel (expensed)		EUR '000
	2018	2017
Remuneration for the Management Board		
Short-term employee benefits	3,333	5,131
Other long-term employee benefits	1,940	1,501
Post-employment benefits	236	216
Share-based remuneration	0	743
Remuneration for the Management Board	**5,509**	**7,592**
Remuneration for the Supervisory Board		
Short-term employee benefits	906	789
Total	**6,415**	**8,381**

The employee representatives on the Supervisory Board who were delegated by the Works Council are entitled to regular compensation (wage or salary plus severance and jubilee benefits) under their employment contracts. This compensation represents appropriate remuneration for their role/activities performed in the company.

In line with customary market and corporate practice, Lenzing AG also grants additional benefits, which are considered non-cash benefits, to the members of the Management Board, selected senior executives and Supervisory Board members. One example of such benefits is insurance coverage (D&O, accident, legal protection etc.), whereby the costs are carried by the Lenzing Group. The insurers receive total premium payments, i.e. there is no specific allocation to the Management Board and the Supervisory Board. In addition, the members of the Management Board and selected senior executives are provided with company vehicles. The members of the Management Board and the Supervisory Board are also reimbursed for certain costs incurred, above all travel expenses. The principles of the remuneration system for the Management Board and the Supervisory Board are described in detail and disclosed in the 2018 corporate governance report of the Lenzing Group.

The members of the Management Board and Supervisory Board received no advances, loans or guarantees. The Lenzing Group has not entered into any contingencies on behalf of the Management Board or Supervisory Board. Directors' dealings reports relating to the members of the Management Board and Supervisory Board are published on the Austrian Financial Market Authority website (see http://www.fma.gv.at).

Post-employment benefits of EUR 232 thousand were recognized for former members of the Management Board of Lenzing AG or their surviving dependents in the form of gains on the income statement and allocations to other comprehensive income (2017: expenses of EUR 342 thousand). The present value of the pension provision recognized in this context, after deduction of the fair value of plan assets (net obligation), amounted to EUR 6,152 thousand as at December 31, 2018 (December 31, 2017: EUR 7,133 thousand).

Note 41. Executive Bodies

Members of the Supervisory Board

- Hanno Bästlein
  Chairman
- Christoph Kollatz
  Deputy Chairman (since April 12, 2018)
- Veit Sorger
  Deputy Chairman
- Felix Strohbichler
  Deputy Chairman (up to April 12, 2018)
- Helmut Bernkopf
- Peter Edelmann (since April 12, 2018)
- Felix Fremerey (since April 12, 2018)
- Franz Gasselsberger
- Patrick Prügger
- Astrid Skala-Kuhmann
- Josef Krenner (up to April 12, 2018)

Appointed by the Works Council

- Johann Schernberger
  Chairman of the Group Works Council
  Chairman of the Works Committee
  Chairman of the Works Council for Waged Employees
- Georg Liftinger
  Chairman of the Works Council for Salaried Employees
  Deputy Chairman of the Works Committee
- Helmut Kirchmair
  Deputy Chairman of the Works Council for Waged Employees
- Herbert Brauneis,
  Deputy Chairman of the Works Council for Waged Employees (since April 12, 2018)
- Daniela Födinger
  Deputy Chairwoman of the Works Council for Salaried Employees

Members of the Management Board

- Stefan Doboczky
  Chief Executive Officer (CEO)
  Chairman of the Management Board
- Robert van de Kerkhof
  Chief Commercial Officer (CCO)
  Member of the Management Board
- Thomas Obendrauf
  Chief Financial Officer (CFO)
  Member of the Management Board
- Heiko Arnold
  Chief Technology Officer (CTO)
  Member of the Management Board (since May 1, 2017)

Note 42. Financial guarantee contracts, contingent assets and liabilities, other financial obligations and legal risks

The Lenzing Group has entered into contingent liabilities of EUR 6,075 thousand (December 31, 2017: EUR 17,401 thousand), above all to secure claims related to the sale of certain equity investments and claims by suppliers, for possible default on sold receivables (also see note 35) and for claims by third parties outside the group. Less important contingent liabilities 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.

The Lenzing Group provides committed credit lines of EUR 13,198 thousand (December 31, 2017: EUR 19,486 thousand) to third parties. These credit lines were not used as at December 31, 2018 and December 31, 2017 (also see note 20).

The Lenzing Group carries obligations for severance payments and anniversary benefits for former employees of certain sold equity investments up to the amount of the notional claims at the sale date. Provisions were recognized for these obligations as at the reporting date at an amount equal to their present value calculated in accordance with actuarial principles. Lenzing AG, in particular, has also assumed liabilities to secure third-party claims against consolidated companies; these claims are considered unlikely to be realized. The Management Board is not aware of any other financial obligations with a significant impact on the financial position and financial performance of the Group.

The obligations arising from outstanding orders for intangible assets and property, plant and equipment amounted to EUR 50,003 thousand as at December 31, 2018 (December 31, 2017: EUR 123,737 thousand). The Lenzing Group has long-term purchase obligations related to raw material supplies, in particular for wood, pulp, chemicals and energy.

As an international corporation, the Lenzing Group is exposed to a variety of legal and other risks. These risks are related, above all, to product defects, competition and antitrust law, patent law, tax law, employees and environmental protection (in particular, for environmental damage at production locations). It is impossible to predict the outcome of pending or future legal proceedings, and rulings by the courts or government agencies or settlement agreements can lead to expenses that are not fully covered by insurance which could have a material impact on the group's future financial position and financial performance. Additional information is provided in the risk report of the Lenzing Group's management report as at December 31, 2018.

The Group is currently involved in various legal proceedings as a result of its operating activities, particularly in the area of patent law. The Management Board assumes the proceedings that are known at the present time will not have a significant impact on the group's current financial position and financial performance or has created sufficient provisions for the related risks.

Note 43. Group companies

In addition to Lenzing AG, the Lenzing Group includes the following companies (list of group companies in accordance with Section 245a Para. 1 in conjunction with Section 265 Para. 2 of the Austrian Commercial Code):

Group companies		31/12/2018		31/12/2017	
	Currency	Share capital	Share in %	Share capital	Share in %
Consolidated companies					
ASIA Fiber Engineering GmbH, Vienna, Austria[1]	EUR	-	-	36,336	100.00
Avit Investments Limited, Providenciales, Turks and Caicos	USD	2,201,000	100.00	2,201,000	100.00
Beech Investment s.r.o., Zlaté Moravce, Slovakia	EUR	6,639	100.00	6,639	100.00
BZL – Bildungszentrum Lenzing GmbH, Lenzing, Austria	EUR	43,604	75.00	43,604	75.00
Cellulose Consulting GmbH, Vienna[1]	EUR	-	-	36,336	100.00
LD Celulose S.A., Sao Paulo, Brazil	BRL	6,762,346	100.00	-	-
Lenzing Biocel Paskov a.s., Paskov, Czech Republic	CZK	280,000,000	100.00	280,000,000	100.00
Lenzing Elyaf Anonim Şirketi, Istanbul, Turkey	TRY	3,500,000	100.00	3,500,000	100.00
Lenzing Fibers (Shanghai) Co., Ltd., Shanghai, China	USD	200,000	100.00	200,000	100.00
Lenzing Fibers GmbH, Heiligenkreuz, Austria	EUR	363,364	100.00	363,364	100.00
Lenzing Fibers Grimsby Limited, Grimsby, UK	GBP	1	100.00	1	100.00
Lenzing Fibers Holding GmbH, Lenzing, Austria	EUR	35,000	100.00	35,000	100.00
Lenzing Fibers (Hongkong) Ltd., Hong Kong, China	HKD	16,000,000	100.00	16,000,000	100.00
Lenzing Fibers Inc., Axis, USA	USD	10	100.00	10	100.00
Lenzing Fibers Ltd., Manchester, UK	GBP	1	100.00	1	100.00
Lenzing Global Finance GmbH, Munich, Germany	EUR	25,000	100.00	25,000	100.00
Lenzing Holding GmbH, Lenzing, Austria	EUR	35,000	100.00	35,000	100.00
Lenzing Korea Yuhan Hoesa, Seoul, Republic of Korea	KRW	280,000,000	100.00	280,000,000	100.00
Lenzing Land Holding LLC., Dover, USA	USD	10,000	100.00	10,000	100.00
Lenzing Modi Fibers India Private Limited, Mumbai, India	INR	1,166,176,090	96.46	1,159,786,090	96.44
Lenzing (Nanjing) Fibers Co., Ltd., Nanjing, China	USD	64,440,000	100.00	64,440,000	70.00
Lenzing Singapore Pte. Ltd., Singapore, Republic of Singapore	EUR	1,000,000	100.00	1,000,000	100.00
Lenzing Technik GmbH, Lenzing, Austria	EUR	35,000	100.00	35,000	100.00
Lenzing (Thailand) Co., Ltd., Bangkok, Thailand	THB	1,041,000,000	100.00	721,000,000	100.00
Penique S.A., Panama, Panama	USD	5,000	100.00	5,000	100.00
PT. South Pacific Viscose, Purwakarta, Indonesia[2]	IDR	72,500,000,000	92.85	72,500,000,000	92.85
Pulp Trading GmbH, Lenzing, Austria	EUR	40,000	100.00	40,000	100.00
Reality Paskov s.r.o., Paskov, Czech Republic	CZK	900,000	100.00	900,000	100.00
Wasserreinhaltungsverband Lenzing – Lenzing AG, Lenzing, Austria[3]	EUR	0	Membership	0	Membership
Companies accounted for using the equity method					
Associates:					
EQUI-Fibres Beteiligungsgesellschaft mbH, Kelheim, Germany	EUR	2,000,000	20.00	2,000,000	20.00
Gemeinnützige Siedlungsgesellschaft m.b.H. für den Bezirk Vöcklabruck, Lenzing, Austria[4]	EUR	1,155,336	99.90	1,155,336	99.90
LD Florestal S.A., Sao Paulo, Brazil	BRL	42,939,357	50.00	-	-
Lenzing Papier GmbH, Lenzing, Austria	EUR	35,000	40.00	35,000	40.00
PT. Pura Golden Lion, Jakarta, Indonesia	IDR	2,500,000,000	40.00	2,500,000,000	40.00
WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H., Vienna, Austria	EUR	36,336	25.00	36,336	25.00
Joint ventures					
RVL Reststoffverwertung Lenzing GmbH, Lenzing, Austria	EUR	36,336	50.00	36,336	50.00
Wood Paskov s.r.o., Paskov, Czech Republic	CZK	2,000,000	50.00	2,000,000	50.00
Unconsolidated companies:					
European Precursor GmbH, Kelheim, Germany[5]	EUR	25,000	95.00	25,000	95.00

Comments:
1) The liquidation process was completed in 2018.
2) The share held directly by the Lenzing Group equals 88.08 percent (December 31, 2017: 88.08 percent). A further 11.92 percent of the shares are held indirectly via PT. Pura Golden Lion, Jakarta, Indonesia, an associate of the Lenzing Group. The total calculated share therefore equals 92.85 percent.
3) The Lenzing Group participates through a membership. It holds 50 percent of the voting rights and can appoint half of the management board members. Since all assets are attributable to the respective landowner under company law, the entity is notionally a separate company (a so-called "silo structure"). Assets located on the Lenzing Group's land are therefore included in the consolidation.
4) This investment is not included in the consolidated financial statements as a subsidiary, even though the Lenzing Group holds 99.9 percent of the voting rights in the company. In light of the given circumstances, the Lenzing Group does not control this company because its power is limited and because the returns hardly vary or can hardly be influenced by the Lenzing Group. Significant influence is exercised by the Lenzing Group over the financial and operating policies of this company, in particular through representation on management bodies and participation in decision-making processes.
5) The company is in liquidation, which was largely completed from an economic perspective as at December 31, 2013. In accordance with the German Commercial Code, the company's equity on the liquidation balance sheet amounted to EUR minus 22,944 thousand as at December 9, 2017 (EUR minus 22,719 thousand as at December 9, 2016). The Lenzing Group does not expect any further material negative effects. This company is not included in the consolidation because it is immaterial from the Group's perspective.

Note 44. Significant events after the end of the reporting period

On February 1, 2019 a fire occurred at the production site in Heiligenkreuz, which led to a shutdown of the production lines. Work is currently being carried out to repair the damage and resume production. Due to the expected insurance coverage of material damage and interruption of operations, the management currently estimates that the financial damage will be limited to the deductible, which is a minor amount.

Other than that, the Lenzing Group is not aware of any significant events occurring after the reporting date on December 31, 2018 which would have resulted in a different presentation of its financial position and financial performance.

Note 45. Authorization of the consolidated financial statements

These consolidated financial statements were approved on March 5, 2019 (consolidated financial statements as at December 31, 2017: March 6, 2018) by the Management Board for review by the Supervisory Board, presentation to the Annual General Meeting and subsequent publication. The Supervisory Board may require changes to the consolidated financial statements as part of its review.

Lenzing, March 5, 2019
Lenzing Aktiengesellschaft

The Management Board

Stefan Doboczky
Chief Executive Officer
Chairman of the Management Board

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

Thomas Obendrauf
Chief Financial Officer
Member of the Management Board

Heiko Arnold
Chief Technology Officer
Member of the Management Board

Auditor's Report

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of Lenzing Aktiengesellschaft, Lenzing, and its subsidiaries (the Group), which comprise the consolidated Balance Sheet as at 31 December 2018, and the Consolidated Income Statement, Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and the Notes to the Consolidated Financial Statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2018, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, And the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code).

Basis for our Opinion

We conducted our audit in accordance with the EU Regulation 537/2014 ("EU Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group in accordance with Austrian Generally Accepted Accounting Principles and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. These matters were addressed in the context of our audit of the financial statements as a whole, however, we do not provide a separate opinion thereon.

Impairment of Cash-Generating Units "Fiber Site China" and "Fiber Site Indonesia"
See Note 18 and Note 19.

Risk for the financial statements
In the financial year 2018 Lenzing Aktiengesellschaft identified triggering events that the cash-generating units "Fiber Site China" and "Fiber Site Indonesia" may be impaired in accordance with IAS 36 "Impairment of Assets". The estimated recoverable amounts (impairment test) of both cash generating units exceeded their carrying amounts.

The estimation of the recoverable amount of cash-generating units in accordance with IAS 36 requires assumptions and estimates, such as the estimated future cash flows, as well as the determination of the applicable discount rate.

There is a risk that assumptions and estimates used to estimate the recoverable amount are not appropriate. This could have a significant impact on the recoverable amount and therefore the carrying amounts of the cash-generating units in the consolidated statement of financial position, as well as the operating result in the consolidated income statement.

Our response
We have audited the impairment test carried out by the company with support of our internal valuation experts as follows.

To assess the adequacy of the planned future cash flows, we gained an understanding of the planning process and compared the future cash flows used for impairment testing with the most recent budget approved by the supervisory board as well as the mid-term planning approved by the management board.

Additionally, we discussed the assumptions for growth rates and operating results with the Management and ascertained to what degree the historical experiences affect the Management's planning process, and whether external factors were considered adequately. We assessed compliance to budget by comparing the budgets of previous years with the reported actual figures.

Furthermore, we assessed the methodology used for impairment testing and the determination of the capital cost rates for compliance with the applicable standards. Our internal valuation experts compared the assumptions, on which the determination of capital cost rates were based, with market- and industry-specific reference values and verified the mathematical accuracy of the calculation.

Impairment of the cash generating Unit "Fiber Site USA"
See Note 18.

Risk for the financial statement
In September 2018 the Management of Lenzing Aktiengesellschaft decided to temporarily stop the construction of additional Lyocell capacities in Mobile, Alabama, USA. As a result the company estimated the recoverable amount of the cash-generating unit "Fiber Site USA". The estimated recoverable amount (impairment test) exceeds the carrying amount of the cash- generating unit.

Furthermore, the Management Board of Lenzing Aktiengesellschaft evaluated whether there are any uncertainties regarding the future economic benefits of the projects costs recorded as assets under construction, by the time the Management Board expects the project to be continued. Subsequently, the recoverable amount of selected assets under construction was estimated which resulted in an impairment loss of EUR 8.6 mn.

The calculation of the recoverable amount of cash-generating units in accordance with IAS 36 requires assumptions and estimates, such as the estimated future cash flows, as well as the determination of the applicable discount rate.

There is a risk that assumptions and estimates used to estimate the recoverable amount are not appropriate. This could have a significant impact on the recoverable amount and therefore the carrying amounts of property, plant and equipment in the consolidated statement of financial position, as well as the operating result in the consolidated income statement.

Our response
Basically we performed audit procedures equal to those outlined above under "Impairment of Cash-Generating Units".

In addition we discussed with management the intended continuation of the construction of additional Lyocell capacities at the mentioned site and assessed whether it appears sufficiently realistic.

In order to assess appropriateness of management's estimates about the future use of project costs recorded in assets under construction incurred for the construction of additional Lyocell-capacities, we critically assessed management's documentation. Additionally we discussed with management all assumptions made in the calculation of the recoverable amount and evaluated their plausibility.

Recoverability of the equity investment in EQUI-Fibres Beteiligungsgesellschaft mbH (EFB) as well as the outstanding receivables due from the acquirer of EFB (including subsidiaries)
See Note 20 and Note 21.

Risk for the financial statements
Because of a fire in the financial year 2018 in a plant of EQUI-Fibres Beteiligungsgesellschaft mbH group, Lenzing Aktiengesellschaft identified a triggering event that the equity investment in EFB may be impaired under IAS 36. Moreover, the Management Board of Lenzing Aktiengesellschaft assumed that default risk for the receivables due from the acquirer of EFB (including subsidiaries) has increased since the last evaluation.

Therefore Lenzing Aktiengesellschaft estimated the recoverable amount in accordance with IAS 36 for the equity investment in EFB (impairment test), as well as the expected credit loss for the receivables due from the acquirer of EFB (including subsidiaries) in accordance with IFRS 9. This resulted in an impairment loss on the equity investment accounted for at-equity of EUR 1.3 mn, as well as on the outstanding purchase price receivable and long-term loans due from the acquirer (including subsidiaries) of EUR 7.8 mn.

The valuation of the recoverable amount of equity investments, which are accounted under the equity method, in accordance with IAS 36 requires assumptions and estimates, in particular of the estimated future cash flows , as well as the determination of the applicable discount rate. The determination of the expected lifetime credit loss in accordance with IFRS 9 also requires estimates of default probabilities and repayments.

For the consolidated financial statements the risk remains that inadequate assumptions and estimations could have a material impact on the result of the impairment test and as such, on the carrying amount of equity investments and loans in the consolidated statement of financial position and on the financial result in the consolidated income statement.

Our response
Our audit approach for the impairment test is similar to the one that is outlined above under "Impairment of Cash- Generating Units".

Our valuation experts assessed the appropriateness of the assumptions in accordance with IFRS 9, on which the determination of the default probabilities and repayments were based, against market- and industry-specific reference values and verified the mathematical accuracy of the calculation. Moreover, we discussed with the company's managers and ascertained to which degree external factors and up-to-date information of the economic situation of the acquiring company, as a group, were given appropriate consideration.

We furthermore assessed the methodology used for impairment testing in accordance with IAS 36 or IFRS 9 and the determination of the capital cost rates for compliance with the applicable standards.

Responsibilities of Management and Audit Committee for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, Austrian Generally Accepted Accounting Principles as well as the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intents to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misprepresentations or override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on Other Legal Requirements

Group Management Report
In accordance with the Austrian Generally Accepted Accounting Principles, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the group management report in accordance with the Austrian Generally Accepted Accounting Principles.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports as applied in Austria.

Opinion
In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Statement
Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Group and its environment, we did not note any material misstatements in the group management report.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated financial statements, the group management report, and the auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information and to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact. If we conclude that there is a material misstatement of fact in other information, we must report that fact. We have nothing to report in this regard.

Additional Information in accordance with Article 10 EU Regulation

At the Annual General Meeting dated April 12, 2018, we were elected as auditors. We were appointed by the supervisory board on May 4, 2018. We have been the Company's auditors from the year ended December 31, 2017, without interruptions.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the Audit Committee, in accordance with Article 11 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 EU Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Group

Engagement Partner

The engagement partner on this engagement is Mrs. Gabriele Lehner.

Linz, March 5, 2019

KPMG Austria GmbH

Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Gabriele Lehner

Austrian Chartered Accountant

This report is a translation of the original report in German, which is solely valid.
The financial statements, together with our auditor's opinion, may only be published if the financial statements and the management report are identical with the audited version attached to this report.. Section 281 Paragraph 2 UGB (Austrian Commercial Code) applies.

Declaration of the Management Board

Declaration of the Management Board according to Section 124 (1) No. 3 of the Stock Exchange Act

We confirm to the best of our knowledge that the consolidated financial statements of the Lenzing Group as at December 31, 2018 that were prepared in accordance with the applicable accounting standards pursuant to International Financial Reporting Standards (IFRSs) give a true and fair view of the assets, liabilities, financial position and profit or loss of the Lenzing Group and that the group management report gives a true and fair view of the development and performance of the business and the position of the Lenzing Group, together with a description of the principal risks and uncertainties the Lenzing Group faces.

Lenzing, March 5, 2019
Lenzing Aktiengesellschaft

The Management Board

Stefan Doboczky
Chief Executive Officer
Chairman of the Management Board

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

Thomas Obendrauf
Chief Financial Officer
Member of the Management Board

Heiko Arnold
Chief Technology Officer
Member of the Management Board

Lenzing Group Five-Year Overview

Key earnings and profitability figures

EUR mn	2018	2017	2016	2015[1]	2014[1]
Revenue	2,176.0	2,259.4	2,134.1	1,976.8	1,864.2
EBITDA (earnings before interest, tax, depreciation and amortization)	382.0	502.5	428.3	290.1	240.3
EBITDA margin	17.6%	22.2%	20.1%	14.7%	12.9%
EBIT (earnings before interest and tax)	237.6	371.0	296.3	151.1	21.9
EBIT margin	10.9%	16.4%	13.9%	7.6%	1.2%
EBT (earnings before tax)	199.1	357.4	294.6	147.4	12.0
Net profit/loss for the year	148.2	281.7	229.1	128.1	(25.1)
Earnings per share in EUR	5.61	10.47	8.48	4.78	(0.92)
ROCE (return on capital employed)	10.3%	18.6%	15.1%	8.1%	(0.1)%
ROE (return on equity)	12.9%	24.5%	22.6%	13.0%	1.1%
ROI (return on investment)	9.3%	14.5%	11.8%	6.3%	0.9%

Key cash flow figures

EUR mn	2018	2017	2016	2015	2014
Gross cash flow	304.0	418.7	385.9	284.5	230.8
Cash flow from operating activities	280.0	271.1	473.4	215.6	218.8
Free cash flow	23.5	32.6	366.3	145.0	114.8
CAPEX	257.6	238.8	107.2	70.9	104.3
Liquid assets as at 31/12	254.4	315.8	570.4	355.3	280.3
Unused credit facilities as at 31/12	341.6	213.8	217.7	190.9	198.5

Key balance sheet figures

EUR mn as at 31.12.	2018	2017	2016	2015[1]	2014[1]
Total assets	2,630.9	2,497.3	2,625.3	2,410.6	2,359.2
Adjusted equity	1,553.0	1,527.7	1,390.5	1,218.6	1,054.9
Adjusted equity ratio	59.0%	61.2%	53.0%	50.6%	44.7%
Net financial debt	219.4	66.8	7.2	327.9	449.5
Net financial debt / EBITDA	0.6	0.1	0.0	1.1	1.9
Net debt	322.8	172.2	115.8	424.5	552.5
Net gearing	14.1%	4.4%	0.5%	26.9%	42.6%
Trading working capital	444.4	414.4	379.6	447.4	395.7
Trading working capital to annualized group revenue	20.6%	19.4%	17.1%	21.6%	19.5%

Key stock market figures

EUR	2018	2017	2016	2015	2014
Market capitalization in mn as at 31/12	2,109.4	2,810.3	3,053.3	1,846.6	1,400.2
Share price as at 31/12	79.45	105.85	115.00	69.55	52.74
Dividend per share	5.00[2]	5.00	4.20	2.00	1.00

Employees	2018	2017	2016	2015	2014
Number (headcount) as at 31/12	6,839	6,488	6,218	6,127	6,356

1) Error correction in accordance with IAS 8 (see note 2 in the annual report 2017).
2) On the basis of proposed distribution of profits.

The above financial indicators are derived primarily from the IFRS consolidated financial statements of the Lenzing Group. Additional details are provided in the section "Notes on the financial performance indicators of the Lenzing Group", in the glossary to the Annual Report and in the consolidated financial statements of the Lenzing Group. Rounding differences can occur in the presentation of rounded amounts and percentage rates.

Financial calendar 2019

Publication Financial Calendar 2019
(acc. to Prime market regulation)

Final results 2018	Tue, 14 March
Record Date “Annual General Meeting”	Sun, 7 April
75th Annual General Meeting	Wed, 17 April
Quotation ex dividend	Tue, 23 April
Record Date “Dividends”	Wed, 24 April
Dividend distribution	Thu, 25 April
Results 1st quarter 2019	Wed, 8 May
Half-year results 2019	Wed, 7 August
Results 3rd quarter 2019	Wed, 6 November

Notes:

This English translation of the financial statements was prepared for the company’s convenience only. It is a non-binding translation of the German financial statements. In the event of discrepancies between this English translation and the German original the latter shall prevail. This annual report also includes forward-looking statements based on current assumptions and estimates that are made to the best of its knowledge by Lenzing Group. Such forwardlooking statements can be identified by the use of terms such as “should”, “could”, “will”, “estimate”, “expect”, “assume”, “predict”, “intend”, “believe” or similar items. The projections that are related to the future development of the Lenzing Group represent estimates that were made on the basis of the information available as at the date on which this annual report went to press. Actual results may differ from the forecast if the assumptions underlying the forecast fail to materialize or if risks arise at a level that was not anticipated. Calculation differences may arise when rounded amounts and percen- tages are summed. The annual report was prepared with great accuracy in order to ensure that the information provided herein is correct and complete. Rounding, type-setting and printing errors can nevertheless not be completely ruled out.

Glossary

Biobased
Products are considered biobased when they are made completely or in part from renewable raw materials. These products can be biodegradable or non-biodegradable.

Biobased materials
Materials from the biorefinery, which are made of renewable raw materials.

Bioenergy
Bioenergy is energy that is generated from biomass. This term covers various types of energy like heat or electricity as well as biomass in which the energy is stored chemically. Renewable raw materials represent the main energy sources.

Biorefinery
A biorefinery is a refinery which processes biomass (e.g. wood) into various products. The underlying concept is based on the integrated, high-quality utilization of the biomass. The two biorefinery locations in Lenzing (Austria) and Paskov (Czech Republic) utilize 100 percent of the wood – in the form of pulp, biobased materials and bioenergy.

Botanic fibers
A fiber industrially produced from raw materials of plant origin (e.g. wood).

Cellulose
Cellulose is a structural component in the cell walls of plants and the raw material used for pulp production. The cellulose content of wood is about 40 percent.

Co-product
By-products recovered during fiber production.

Dissolving wood pulp
A special kind of pulp with distinct characteristics which is used to manufacture viscose, modal and lyocell fibers and other cellulose-based products. This grade of pulp is characterized by a higher alpha cellulose content and high purity.

FSC®
The Forest Stewardship Council® (FSC®) is an international non-profit organization for wood certification (https://ic.fsc.org/).

Integration
All steps in fiber production – from the raw material wood to pulp production and fiber production – are located at the same site.

ISO 14001
An international standard for the certification of environmental management systems.

ISO 9001
An international standard for the certification of quality management systems.

LENZING™ ECOVERO™
A viscose fiber developed by Lenzing with a very favorable ecological footprint, which can be identified in the finished products due to a special technology. This way, transparency is ensured along the entire processing chain.

LENZING™ Web Technology
A web formation process newly developd by Lenzing, which starts with dissolving wood pulp and produces a nonwoven material that consists of 100 percent lyocell filament yarn.

Lyocell fiber
A type of cellulose fiber developed by Lenzing, which is produced in a very environmentally friendly process. Lenzing markets these fibers under the TENCEL™ and VEOCEL™ brands. The production process is particularly environmentally friendly because of its closed loop and use of only one solvent.

Modal fiber
Modal is a viscose fiber which is refined under modified viscose production and spinning conditions. It is characterized by special softness and is the preferred fiber for high-quality underwear and similar products. The fibers have improved usage properties such as strength, dimensional stability, etc. Lenzing markets these fibers under the TENCEL™ Modal brand.

Nonwovens
The nonwoven materials made from VEOCEL™ fibers are used for sanitary, medical and cosmetics applications.

OHSAS 18001
Occupational Health and Safety Assessment Series (OHSAS) is a certification process for work safety management systems.

PEFC™
The Programme for the Endorsement of Forest Certification Schemes™ (PEFC™) is an international non-profit organization for wood certification.

REFIBRA™
Lenzing introduced REFIBRA™ at the beginning of 2017. As raw materials, this new technology uses pulp from fabric scraps resulting from the production of cotton clothing and pulp from wood. Fibers made with this technology are produced in the very environmentally friendly lyocell production process.

sCore TEN
The name of the Lenzing Group's corporate strategy stands for a steady focus on performance (scoring) and the strengthening of the core business (core) as well as for long-term growth with specialty fibers like TENCEL™ and VEOCEL™.

TENCEL™ Luxe
The first filament yarn made by Lenzing. It is produced from pulp and is not a fiber, but rather a finished yarn, which therefore does not have to be spun.

Glossary

Viscose fibers
A cellulosic fiber produced from raw materials of plant origin (e.g. wood) using the viscose process.

Financial glossary

Adjusted equity
Equity including non-current and current government grants less the proportional share of deferred taxes on these government grants.

Adjusted equity ratio
Ratio of adjusted equity to total assets in percent.

CAPEX
Capital expenditures; i.e. acquisition of intangible assets, property, plant and equipment as per consolidated statement of cash flows.

Capital employed
Total assets minus the following: non-interest-bearing debt, cash and cash equivalents, current securities, investments accounted for using the equity method and financial assets.

Earnings per share
The share of net profit/loss for the year 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); the precise derivation can be found under note 17 in the notes to the consolidated financial statements.

EBIT (earnings before interest and tax)
Earnings before interest and tax, or operating result; the precise derivation can be found in the consolidated income statement.

EBIT margin
EBIT as a percentage of revenue; represents the return on sales (ROS).

EBITDA (earnings before interest, tax, depreciation and amortization)
Operating result before interest, tax, depreciation on property, plant and equipment and amortization of intangible assets and before income from the release of investment grants. The precise derivation can be found in the consolidated income statement.

EBITDA margin
EBITDA as a percentage of revenue.

EBT (earnings before tax)
Profit/loss for the year before income tax expense. The precise derivation can be found in the consolidated income statement.

Equity
The equity item aggregates the equity instruments as defined by IFRS. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. This represents the funds provided to the entity by its owners.

Free cash flow
Cash flow from operating activities less cash flow from investing activities and net cash inflow from the sale and disposal of subsidiaries and other business areas plus acquisition of financial assets and investments accounted for using the equity method less proceeds from the sale/repayment of financial assets. Free cash flow corresponds to the readily available cash flow.

Gross cash flow
Gross cash flow equals cash flow from operating activities before change in working capital; the precise derivation can be found in the consolidated statement of cash flows.

IAS
Abbreviation for International Accounting Standard(s), which are internationally recognized accounting rules.

IFRS
Abbreviation for International Financial Reporting Standard(s), which are internationally recognized accounting rules.

Liquid assets
Cash and cash equivalents plus liquid securities and liquid bills of exchange.

Liquid funds
Cash and cash equivalents plus current securities.

Market capitalization
Weighted average number of shares multiplied by the share price as at the reporting date.

Net debt
Interest-bearing financial liabilities (= current and non-current financial liabilities) less liquid assets plus provisions for pensions and severance payments.

Net financial debt
Interest-bearing financial liabilities (= non-current and current financial liabilities) less liquid assets.

Net financial debt/EBITDA
Net financial debt as a percentage of EBITDA.

Net gearing
Net financial debt as a percentage of adjusted equity.

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

Non-interest-bearing debt
Trade payables plus the following: puttable non-controlling interests, other liabilities, current tax liabilities, deferred tax liabilities and the proportional share of deferred taxes on government grants as well as provisions (excluding post-employment benefits).

NOPAT
Net operating profit after tax; operating result (EBIT) less the proportional share of current income tax expense.

Post-employment benefits
Provisions for severance payments and pensions.

ROCE (return on capital employed)
NOPAT as a percentage of average capital employed (average from January 1 and December 31).

ROE (Return on equity)
EBT (earnings before tax) as a percentage of average adjusted equity (average from January 1 and December 31).

ROI (Return on investment)
EBIT (earnings before tax) as a percentage of average total assets (average from January 1 and December 31).

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 percentage 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.

Lenzing

Innovative by nature

www.lenzing.com

Imprint

Copyright and published by
Lenzing Aktiengesellschaft
4860 Lenzing, Austria
www.lenzing.com

Edited by:
Waltraud Kaserer, Daniel Winkelmeier
(Corporate Communications & Investor Relations, Lenzing AG)

Concept and project management:
Peter Schiefer (PS Kommunikation),
Ute Greutter (UKcom Finance)

Graphic design:
ElectricArts Werbeagentur GmbH

Text pages 28-55, 69-149:
Produced in-house using FIRE.sys

Photographs by:
Isaiah & Taylor Photography/Stocksy United
Nomad/E+/Getty Images
Peter Muller/Cultura/Getty Images
Lauren Parker/EyeEm/Getty Images
Westend61/Ghetty Images
BONNINSTUDIO/Stocksy United
Eric Audras/Getty Images
JGI/Jamie Grill/Getty Images
BBernard/Shutterstock
Karl Michalski
Franz Neumayr
Lee Jian Shen
Kevin Wong
Cheung Chi Lock
B&C Industrieholding GmbH