

Naturally positive

Q3 2017

Interim report 01-09/2017
Lenzing Group

lenzing.com



LEADING FIBER INNOVATION

Selected Indicators of the Lenzing Group

Key earnings and profitability figures

EUR mn	01-09/2017	01-09/2016	Changes
Revenue	1,726.6	1,578.4	9.4%
EBITDA (earnings before interest, tax, depreciation and amortization)	397.1	320.6	23.9%
EBITDA margin	23.0%	20.3%	
EBIT (earnings before interest and tax)	298.4	221.7	34.6%
EBIT margin	17.3%	14.0%	
EBT (earnings before tax)	283.3	207.1	36.8%
Net profit for the year (/the period)	219.3	162.1	35.3%
Earnings per share in EUR	8.12	5.98	36.0%

Key cash flow figures

EUR mn	01-09/2017	01-09/2016	Changes
Gross cash flow	325.3	282.8	15.0%
Cash flow from operating activities	262.7	374.9	(29.9%)
Free cash flow	134.4	310.8	(56.8%)
CAPEX	128.5	64.2	100.1%

EUR mn	30/09/2017	31/12/2016	Changes
Liquid assets	396.7	570.4	(30.4%)
Unused credit facilities	208.2	217.7	(4.3%)

Key balance sheet figures

EUR mn	30/09/2017	31/12/2016	Changes
Total assets	2,500.5	2,625.3	(4.8%)
Adjusted equity	1,471.2	1,390.5	5.8%
Adjusted equity ratio	58.8%	53.0%	
Net liquidity (+) / net financial debt (-)	16.9	(7.2)	n. a.
Net debt	(91.9)	(115.8)	(20.6%)
Net gearing	n. a. ¹	0.5%	
Trading working capital	383.6	379.6	1.0%
Trading working capital to annualized group revenue	16.6%	17.1%	

Key stock market figures

EUR	30/09/2017	31/12/2016	Changes
Market capitalization in mn	3,257.7	3,053.3	6.7%
Share price	122.70	115.00	6.7%

Employees	30/09/2017	31/12/2016	Changes
Number (headcount)	6,440	6,218	3.6%

The above key financial figures are derived primarily from the condensed consolidated interim financial statements and the consolidated financial statements of the previous year of the Lenzing Group. Additional details are provided in "Notes on the Financial Performance Indicators of the Lenzing Group", available at the following link <http://www.lenzing.com/Notes-Financial-Performance-Indicators-Lenzing-Group-2017-Q3>, and in the condensed consolidated interim financial statements, resp. the consolidated financial statements of the previous year of the Lenzing Group. Rounding differences can occur in the presentation of rounded amounts and percentag rates.

¹⁾ Not applicable due to net liquidity.

Management Report 01-09/2017

The first nine months of 2017 brought an improvement in the economic environment over the previous quarters. This development was also reflected in a forecast revision by the International Monetary Fund (IMF), which now points to an increase in growth of 3.6 percent this year and 3.7 percent in 2018. The revision is based on wide-ranging factors which include positive economic development in the Eurozone, Russia, Japan and the emerging and developing countries in Asia, which should offset the downward movement in the USA and Great Britain.

The global fiber markets were characterized by different price trends during the third quarter: Rising demand for higher cotton grades towards the end of the 2016/2017 harvest season in July led to a substantial increase in prices. In August, prospects of a strong global cotton harvest pushed prices down below the level at the beginning of July. Prices were also negatively affected by an upward correction to the stock levels in the state-owned Chinese inventories.

Polyester fiber prices rose by 18 percent in the third quarter after a very weak first half-year, whereby the increase was caused by the strong growth in raw material prices.

The demand for wood-based cellulose fibers has been very positive along the entire value chain since the beginning of the year. Several Chinese producers were forced to cut their production after a fourth round of environmentally-related inspections. This led to a supply shortage. The overall price remained high. A second quarter decline was followed by a five percent rise in viscose prices up to the end of August and a subsequent levelling off. Prices on the Chinese spot market closed the third quarter at RMB 16,190 (medium grade). The prices for dissolving pulp rose to USD 900 by the end of September, but are still two percent lower than at the beginning of this year due to the sharp drop in prices during the second quarter.

In the third quarter of 2017 the Lenzing Group continued – as in the previous quarters – to further increase revenue and earnings over the previous year. Group revenue rose by 6.3 percent to EUR 577.5 mn, and EBITDA (earnings before

interest, tax, depreciation and amortization) increased by 0.7 percent to EUR 126.4 mn. EBIT (earnings before interest and tax) was 2.5 percent higher at EUR 94.2 mn. EBT (earnings before tax) rose by 4.6 percent to EUR 88.7 mn, while net profit increased 2.2 percent to EUR 69 mn.

Group revenue rose by 9.4 percent year-on-year to EUR 1,726.6 mn for the first three quarters of 2017 in a positive market environment, above all due to higher prices for all three fiber generations. The consistent implementation of the sCore TEN corporate strategy with its focus on profitable growth through specialty fibers is continuing to produce good results: EBITDA (earnings before interest, tax, depreciation and amortization) increased by 23.9 percent to EUR 397.1 mn in the first nine months and supported an improvement in the EBITDA margin from 20.3 percent in the comparable prior year period to 23.0 percent. EBIT (earnings before interest and tax) was 34.6 percent higher at EUR 298.4 mn and resulted in an EBIT margin of 17.3 percent (previous year: 14 percent). A year-on-year improvement was also recorded in EBT (earnings before tax) with an increase of 36.8 percent to EUR 283.3 mn and in net profit with an increase of 35.3 percent to EUR 219.3 mn. Earnings per share rose by 36 percent to EUR 8.12.

The sound development of business supported an increase of 15 percent in gross cash flow to EUR 325.3 mn. Cash flow from operating activities fell by 29.9 percent year-on-year to EUR 262.7 mn, primarily due to a positive non-recurring effect resulting from a prior year improvement in payment terms with suppliers and a reduction in the factoring volume.

Investments in intangible assets and property, plant and equipment (CAPEX) roughly doubled to EUR 128.5 mn. This increase is attributable primarily to the capacity expansion projects currently in progress at Heiligenkreuz (Austria) and Mobile, Alabama (USA). Cash outflows in the third quarter of 2017 also included the repayment of a EUR 120 mn bond. Liquid assets fell by 30.4 percent from January 2017 to EUR 396.7 mn at the end of the third quarter. At the end of the reporting period the Lenzing Group had a net liquidity of EUR 16.9 mn.

The increase in the share of specialty fibers in line with the sCore TEN corporate strategy continued during the reporting period. Important steps to reach this goal include the completed expansion of production through the elimination of bottlenecks at the plants in Lenzing and Grimsby (Great Britain) as well as the start of construction in Heiligenkreuz and Mobile, where a state-of-the-art plant for the production of TENCEL® branded lyocell fibers will be built. At the end of June this year, the Supervisory Board also approved a proposal by the Management Board to acquire land in Thailand for the next plant to produce TENCEL® branded fibers, to found a subsidiary and to obtain the necessary permits.

The introduction of Refibra™ branded lyocell fibers at the Première Vision trade fair in Paris during March and the launch of EcoVero™ branded viscose fibers in May were recently followed by the presentation of TENCEL™ Luxe, a further groundbreaking innovation in the area of specialty fibers by the Lenzing Group. TENCEL™ Luxe branded lyocell filament yarn marks a further key milestone in the implementation of the corporate strategy and represents Lenzing's entry into the filament market. This product will support the transformation of the Lenzing Group into a genuine specialist in the market for very high-quality botanic materials made from the sustainable raw material wood.

Another important element of the sCore TEN strategy is the intensification of customer contacts and closer cooperation with partners along the value chain. With the opening of a new application and innovation center (AIC) in Hong Kong during September, the Lenzing Group set a further milestone in this direction. A new office in Istanbul (Turkey) was also opened in April to strengthen sales activities and increase the closeness to customers

Outlook

Demand development on the global fiber market remains positive within the context of a generally friendly macroeconomic environment. Lenzing expects wood-based cellulose fibers to grow at an even higher rate than the overall fiber market. After three excellent quarters, the Lenzing Group will achieve an operating result in 2017 that is significantly better than 2016.

For 2018, Lenzing sees a number of somewhat opposing factors that limit visibility regarding fiber price developments. Overall market demand is expected to remain high. However, the Group expects a substantial increase on the supply side, especially for viscose but also for cotton. Price trends for selected key raw materials, especially caustic soda, are difficult to predict. Against this background the Lenzing Group expects a much more challenging market environment for standard viscose during the upcoming quarters.

The above-mentioned development reassures the Lenzing Group in its chosen corporate strategy sCore TEN. The Group initiated its transformation from a volume-oriented viscose player to a value-oriented specialty fiber player at the end of 2015, and will continue the disciplined implementation of its business strategy.

Lenzing, November 10, 2017
Lenzing Aktiengesellschaft
The Management Board

Stefan Doboczky
Chief Executive Officer

Robert van de Kerkhof
Chief Commercial Officer

Thomas Obendrauf
Chief Financial Officer

Heiko Arnold
Chief Technology Officer

Consolidated Income Statement (Condensed)

for the period from January 1 to September 30, 2017

	EUR mn			
	07-09/2017	07-09/2016	01-09/2017	01-09/2016
Revenue	577.5	543.5	1,726.6	1,578.4
Change in inventories of finished goods and work in progress	(2.5)	(3.8)	(3.5)	(11.8)
Own work capitalized	12.6	6.5	32.4	18.0
Other operating income	11.8	10.7	38.6	33.9
Cost of material and other purchased services	(318.2)	(294.8)	(936.6)	(884.9)
Personnel expenses	(89.3)	(83.1)	(263.1)	(239.1)
Other operating expenses	(65.6)	(53.6)	(197.3)	(173.9)
Earnings before interest, tax, depreciation and amortization (EBITDA)¹	126.4	125.5	397.1	320.6
Amortization of intangible assets, depreciation of property, plant and equipment and income from the release of investment grants	(32.2)	(33.5)	(98.7)	(98.9)
Earnings before interest and tax (EBIT)¹	94.2	92.0	298.4	221.7
Financial result	(3.2)	(4.1)	(9.3)	(11.4)
Allocation of profit or loss to puttable non-controlling interests	(2.4)	(3.1)	(5.8)	(3.2)
Earnings before tax (EBT)¹	88.7	84.8	283.3	207.1
Income tax expense	(19.7)	(17.3)	(64.0)	(45.0)
Net profit for the period	69.0	67.5	219.3	162.1
Net profit for the period attributable to shareholders of Lenzing AG	68.4	66.0	215.7	158.7
Net profit for the period attributable to non-controlling interests	0.6	1.5	3.6	3.4
Earnings per share	EUR	EUR	EUR	EUR
Diluted = basic	2.57	2.49	8.12	5.98

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 (Condensed)

for the period from January 1 to September 30, 2017

	EUR mn			
	07-09/2017	07-09/2016	01-09/2017	01-09/2016
Net profit for the period as per consolidated income statement	69.0	67.5	219.3	162.1
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit liability	0.0	0.0	0.0	(7.9)
Income tax relating to these components of other comprehensive income	0.0	0.0	0.0	2.0
	0.0	0.0	0.0	(5.9)
Items that may be reclassified to profit or loss				
Foreign operations – foreign currency translation differences	(11.0)	(6.8)	(40.5)	(20.7)
Available-for-sale financial assets	0.1	0.4	2.6	0.8
Cash flow hedges	(0.7)	2.2	17.2	2.5
Income tax relating to these components of other comprehensive income	0.1	(0.6)	(4.4)	(0.7)
Share of other comprehensive income of investments accounted for using the equity method (net of tax)	(0.1)	0.0	(0.2)	0.1
	(11.5)	(4.8)	(25.3)	(18.0)
Other comprehensive income - net of tax	(11.5)	(4.8)	(25.3)	(24.0)
Total comprehensive income	57.6	62.7	194.1	138.1
Attributable to shareholders of Lenzing AG	58.0	61.5	194.2	135.4
Attributable to non-controlling interests	(0.4)	1.2	(0.1)	2.7

Consolidated Statement of Financial Position (Condensed)

as at September 30, 2017

	EUR mn	
	30/09/2017	31/12/2016
Assets		
Intangible assets and property, plant and equipment	1,306.8	1,297.2
Investments accounted for using the equity method and financial assets	40.5	37.8
Deferred tax assets	3.8	4.1
Other non-current assets	12.6	14.0
Non-current assets	1,363.8	1,353.1
Inventories	322.4	329.4
Trade receivables	297.2	277.4
Other current assets	129.1	105.8
Cash and cash equivalents	388.0	559.6
Current assets	1,136.7	1,272.2
Total assets	2,500.5	2,625.3
Equity and liabilities		
Equity attributable to shareholders of Lenzing AG	1,418.8	1,336.1
Non-controlling interests	32.2	32.4
Equity	1,451.0	1,368.5
Financial liabilities	276.3	328.3
Deferred tax liabilities	56.9	52.9
Provisions	137.5	138.1
Other non-current liabilities	40.2	33.6
Non-current liabilities	510.8	552.9
Financial liabilities	103.6	249.2
Trade payables	236.0	227.2
Provisions	109.6	97.2
Other current liabilities	89.5	130.1
Current liabilities	538.7	703.8
Total equity and liabilities	2,500.5	2,625.3

Consolidated Statement of Changes in Equity (Condensed)

for the period from January 1 to September 30, 2017

	EUR mn						
	Share capital	Capital reserves	Other reserves	Retained earnings	Equity attributable to shareholders of Lenzing AG	Non-controlling interests	Equity
As at 01/01/2016 (previous)	27.6	133.9	31.1	986.8	1,179.4	27.3	1,206.7
Error correction in accordance with IAS 8 ¹	0.0	0.0	(0.9)	(7.0)	(7.8)	0.0	(7.8)
As at 01/01/2016 (restated)	27.6	133.9	30.3	979.8	1,171.6	27.3	1,198.9
Total comprehensive income	0.0	0.0	(23.2)	158.7	135.4	2.7	138.1
Acquisition/disposal of non-controlling interests and other changes in the scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	(53.1)	(53.1)	(0.1)	(53.2)
As at 30/09/2016	27.6	133.9	7.1	1,085.4	1,254.0	29.9	1,283.8
As at 01/01/2017	27.6	133.9	23.5	1,151.1	1,336.1	32.4	1,368.5
Total comprehensive income	0.0	0.0	(21.6)	215.7	194.2	(0.1)	194.1
Dividends	0.0	0.0	0.0	(111.5)	(111.5)	(0.1)	(111.6)
As at 30/09/2017	27.6	133.9	2.0	1,255.3	1,418.8	32.2	1,451.0

¹⁾ Error correction in accordance with IAS 8 (for further details please refer to Note 2 of the consolidated financial statements 2016 of the Lenzing Group).

Consolidated Statement of Cash Flows (Condensed)

for the period from January 1 to September 30, 2017

	EUR mn	
	01-09/2017	01-09/2016
Net profit for the period	219.3	162.1
+ Amortization of intangible assets and depreciation of property, plant and equipment	100.7	100.9
- Other non-cash income/+ expenses	5.3	19.8
Gross cash flow	325.3	282.8
+/- Change in inventories	(12.0)	13.9
+/- Change in accounts receivable	(53.9)	(29.4)
+/- Change in liabilities	3.3	107.6
Change in working capital	(62.6)	92.1
Cash flow from operating activities	262.7	374.9
- Acquisition of intangible assets, property, plant and equipment (CAPEX)	(128.5)	(64.2)
- Acquisition of financial assets	(1.0)	(0.8)
+ Proceeds from the sale of intangible assets, property, plant and equipment	0.2	0.1
+ Proceeds from the sale/repayment of financial assets	1.2	3.1
+ Net inflow from the sale and disposal of subsidiaries and other business areas	3.1	1.4
Cash flow from investing activities	(125.0)	(60.5)
- Distribution to shareholders	(111.6)	(53.2)
+ Investment grants	1.9	1.0
+ Proceeds from the issue of bonds and private placements	0.0	0.0
- Repayment of bonds and private placements	(120.0)	0.0
+ Inflows from financing activities/- repayment of other financial liabilities	(70.6)	(71.5)
Cash flow from financing activities	(300.4)	(123.7)
Total change in liquid funds	(162.8)	190.7
Liquid funds at the beginning of the year	559.6	347.3
Currency translation adjustment relating to liquid funds	(8.8)	(6.2)
Liquid funds at the end of the reporting period	388.0	531.7
Additional information on payments in cash flow from operating activities:		
Interest payments received	1.7	1.1
Interest payments made	9.3	8.0
Income taxes paid	64.2	30.9

The condensed consolidated interim financial statements as at September 30, 2017 were prepared in accordance with the regulations "Prime market – section interim reports" of the Vienna stock exchange. They are based on the consolidated financial statements as at December 31, 2016 and should therefore always be read in conjunction with these statements.

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

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

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Note:

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

This interim group report also includes forward-looking statements based on current assumptions and estimates that are made to the best of its knowledge by the Lenzing Group. Such forward-looking statements can be identified by the use of terms such as "should", "could", "will", "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 interim report went to press. Actual results may differ from the forecast if the assump-

tions 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 percentages are summed. The interim group 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.