Lenzing

Innovative by nature

Half-Year Report

01-06/2023

Lenzing Group

Selected Indicators of the Lenzing Group

Key earnings and profitability figures

EUR mn	01-06/2023	01-06/2022	Change
Revenue	1,250.2	1,293.6	(3.4)%
EBITDA (earnings before interest, tax, depreciation and amortization)	136.5	188.9	(27.7)%
EBITDA margin	10.9%	14.6%	
EBIT (earnings before interest and tax)	(12.0)	95.6	n/a
EBIT margin	(1.0)%	7.4%	
EBT (earnings before tax)	(76.1)	100.0	n/a
Net profit/loss for the year (/the period)	(65.8)	72.3	n/a
Earnings per share in EUR	(3.92)	2.36	n/a

Key cash flow figures

EUR mn	01-06/2023	01-06/2022	Change
Gross cash flow	(19.3)	169.7	n/a
Cash flow from operating activities	(29.2)	15.2	n/a
Free cash flow	(165.4)	(372.7)	(55.6)%
CAPEX	136.5	389.0	(64.9)%
EUR mn	**30/06/2023**	**31/12/2022**	**Change**
Liquid assets	341.5	453.3	(24.7)%
Unused credit facilities	237.2	232.3	2.1%

Key balance sheet figures

EUR mn	30/06/2023	31/12/2022	Change
Total assets	5,490.7	5,525.0	(0.6)%
Adjusted equity	2,010.5	2,088.6	(3.7)%
Adjusted equity ratio	36.6%	37.8%	
Net financial debt	1,953.0	1,799.4[1]	8.5%
Net financial debt incl. lease liabilities	2,094.4	1,869.0	12.1%
Net debt	2,171.4	1,946.6	11.5%
Net gearing	97.1%	86.2%[1]	
Trading working capital	620.7	570.7	8.8%
Trading working capital to annualized group revenue	24.7%	24.0%	

Key stock market figures

EUR	30/06/2023	31/12/2022	Change
Market capitalization in mn	1,190.8	1,454.9	(18.2)%
Share price	44.85	54.80	(18.2)%

Employees

	30/06/2023	31/12/2022	Change
Number (headcount)	8,162	8,301	(1.7)%

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.

1) Since the second quarter of the 2023 financial year, net financial debt is presented excluding lease liabilities (see the supplement to the management report "Notes on the Financial Performance Indicators of the Lenzing Group").

Advancing Circularity

and the people making it happen

Driving the circular economy forward is not always easy, but our ambition is unwavering. Despite the challenges of a rapidly changing economy and environment, we remain focused on our planet's future. We are climate pioneers who think and act sustainably so that we can contribute to a better future by the choices we make today.

We remain committed to changing the world from a linear to a circular economy, and we choose to embrace the circular economy at every opportunity – through greater transparency, improved infrastructure and greener energy sources.

All of this requires us to innovate and collaborate. It takes good leadership and partnerships. It takes investment and the scaling of new technologies, while at the same time we are committed to the well-being of the people who are driving this development.

We are a global community working toward a common goal – greater protection for nature, economic benefits for us, and the prospect of a better life for generations to come.

Advancing Circularity

In our online Annual Report 2022, we tell how we are driving the industry's transformation from linear to circular even in challenging times. In three multimedia stories, we put a special emphasis on the people making this happen.

Learn more

Letter from the CEO

Dear readers,

The first half of 2023 continued to be characterized by various geopolitical tensions and devastating natural disasters, including the earthquake in Turkey and neighboring Syria. Right at the start of this foreword, I would like to take the opportunity to express our sincere condolences to those affected. Our thoughts are with all the people in the region, including the many who are close to the Lenzing family. Many of our employees on site showed a high degree of willingness to help, and the Lenzing Group also responded quickly by making a financial contribution to the local authorities.

The ongoing war in Ukraine and its consequences, as well as high level of inflation accompanied by a sluggish economy, are continuing to exert a negative effect on economic activity. The recovery is proceeding more slowly than expected in many industries, including the textile and apparel industry, and the aftereffects of the multiple crises of previous years are still clearly evident. However – and this is the encouraging news – we have seen signs of improvement, in terms of both energy and raw material costs as well as demand.

In this environment, Lenzing posted an improved business performance compared to the previous quarters with revenue of EUR 1.25 bn and EBITDA of EUR 136.5 mn, whereby the latter was also impacted by valuation effects.

Following the successful implementation of the largest investment program in the company's history with the key projects in Thailand and Brazil, we were pleased to report further strategic successes in the first half of 2023. With the completion of the converted modal fiber production line in Nanjing (China), we can now also offer locally produced TENCEL™ fibers to our Chinese customers for the first time. In Purwakarta (Indonesia), we are shortly about to successfully convert production capacities to specialty viscose of the LENZING™ ECOVERO™ and VEOCEL™ brands. Both projects help us to better serve growing demand for our specialty fibers.

At the same time, we are continuing to advance purposefully towards a carbon neutral future. To ensure secure, cost-effective and sustainable supplies for our lyocell plant in Heiligenkreuz, in Austria's Burgenland region, we acquired a biomass power plant in the second quarter of 2023. With this strategic investment, we are significantly increasing our independence from fossil energy and thereby also making an important contribution to securing this location as an operational site. In the future, we will invest to an even greater extent in sustainable energy concepts in order to further reduce our carbon emissions in line with our ambitious climate target.

Lenzing is working tirelessly to make the industries in which it operates even more sustainable and to drive the transformation of the textile business model from a linear to a circular economy model. For this change to take place, further efforts are required from the entire sector. Our LIFE TREATS project with our long-standing Swedish partner company Södra is exemplary in this context. This project achieved further resounding successes in the reporting period and was supported with the largest EU LIFE grant for a recycling project. Only with the help of this project will it be possible to process and recycle a wide range of complex, colored textiles in the future. This joint enterprise is also making a significant contribution to the EU Circular Economy Action Plan.

I am particularly pleased that our research and development activities are also increasingly bearing fruit. During the reporting period, we again presented numerous sustainable innovations such as the industry's first solution to reduce discoloration of cellulose-based garments during thermoplastic molding processes and our improved carbon neutral Lyocell Shortcut fibers for flushable products. This will enable us to better support our customers and partners along the value chains in making their offerings to consumers more sustainable. These technological innovations also highlight our ambition to continuously improve and expand the applications of our TENCEL™, LENZING™ ECOVERO™ and VEOCEL™ environmentally responsible specialty fibers.

With our award-winning sustainability reports, we have been creating transparency for many years, documenting our achievements to date, and the progress we have made in achieving our ambitious targets. The Lenzing Sustainability Report 2022, which was published in March, describes our joint successes in the environmental, economic and social areas and our ongoing commitment to a future where the circular economy is the norm.

Allow me to conclude by taking a look ahead: Lenzing is on a recovery track, as a comparison especially with the previous quarter shows, even though the current market environment continues to weigh on consumer confidence and thereby on the order situation in many industries, and visibility remains limited for the time being, especially in the textile sector. We implemented optimization measures on the cost and liquidity side as well as on the sales side at an early stage, which are having an increasingly positive impact. We are fully on track with the implementation of the program to cut costs amounting to more than EUR 70 million per year. However, we are not only sustainably reducing our cost base, but are also strengthening our sales activities with a targeted program.

During the reporting period, we also took the opportunity to significantly strengthen our liquidity and balance sheet position and to prepare Lenzing for the many tasks that lie ahead. We not only successfully implemented a fully guaranteed cash capital increase with subscription rights for existing shareholders, but also achieved a proactive extension of our credit terms.

I would like to take this opportunity to thank the shareholders, and in particular our core shareholder, for their confidence and for our very constructive and promising discussions with investors. The market recognizes our strong positioning in addressing the megatrends of sustainability and the circular economy, and our capital increase is regarded as a forward-looking measure to strengthen our equity position. This confirms that we are taking the right measures with our strategy.

In the medium and long term, we continue to expect strong growth in demand for sustainable products from Lenzing. We are convinced that the two investment projects in China and Indonesia will further strengthen our positioning in this context and that we will pursue a profitable growth course with the successfully implemented key projects in Thailand and Brazil.

A big "thank you" is also due to our customers and partners who appreciate our sustainable products and services, and last but not least to the more than 8,000 employees of the Lenzing Group who have achieved fantastic results and give their best day after day to make Lenzing the leading company in our industry.

Yours,

Stephan Sielaff

Content

Lenzing is on a recovery track, as a comparison especially with the previous quarter shows.

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Revenue 01-06/2023

EUR 1.25 bn

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General Market Environment

Global economy[1]

The economic recovery slowed significantly in the first half of 2023. Global growth is expected to decelerate from 3.5 percent last year to 3 percent in 2023 and 2024, according to the International Monetary Fund.

Growth in the USA and Europe is being slowed by sharply higher key interest rates to combat persistently high inflation as well as by reductions in real incomes. Although consumer confidence has improved recently, it remains at a low level. Some European countries slipped into recession during the reporting period.

In China, the first quarter continued to be characterized by a strong increase in consumer demand following the end of Covid restrictions. In the second quarter, however, growth slowed again and proved to be less robust, not least due to weak export demand.

Global fiber market[2]

The recovery in the fiber market fell short of the expectations held at the start of the year. According to a global survey by the International Textile Manufacturers Federation (ITMF),[3] satisfaction with the current business situation in the textile industry continued to decrease during the first half of the year, although in July it posted a slight recovery, albeit to a level that remains low.

Despite sales promotion measures, many retailers continued to struggle with high stock levels and were reluctant to place orders as a consequence.

Global retail apparel sales[4] in the first half of 2023 (based on an estimate up until May) were around 10 to 15 percent higher than in pre-crisis 2019; adjusted for price increases, however, growth was significantly lower at between 0 and 5 percent. In addition, demand weakened over the course of the first half of the year.

In the first half of 2023, cotton prices were much less volatile compared to last year's wildly fluctuating prices. Measured by the Cotlook A index, they were down by 10 percent during the first half of the year and stood at around 90 US cents per pound at the mid-year stage.

Chinese cotton prices increased by 15 percent in the first half of 2023. This trend, which diverged sharply from that on the international market, reflected the expectation of lower local crop yields.

The price of polyester staple fiber in China fell to RMB 7,150 per tonne by the end of the first half, back to the level at the beginning of the year; in the meantime, the polyester price had risen to RMB 7,715 per tonne in April. While Brent crude oil traded in US dollars was down by almost 13 percent, prices for intermediate products in China remained at approximately the same level – not least due to the weak yuan.

At the end of the first half of the year, viscose prices in China were also almost at the same level as at the start of the year, at RMB 12,850 per tonne. Prices peaked at RMB 13,150 per tonne at the end of May and then decreased in line with the price of dissolving wood pulp. In US dollar terms, the Chinese viscose price shed just under 5 percent during the half-year due to the weakness of the yuan, and in euro terms by even more than 6 percent.

Prices for wood-based specialty fibers such as those of the TENCEL™, LENZING™ ECOVERO™ and VEOCEL™ brands decreased slightly in the first half of the year. However, the reduction was less pronounced than for generic fibers, so the price premium was largely stable.

The Chinese import price for hardwood-based dissolving wood pulp, the key raw material for the production of wood-based cellulosic fibers, eased slightly from May, and at the end of the first half of the year stood 3 percent below the level at the start of the year at USD 870 per tonne. Meanwhile, the price of paper pulp in China was down by 38 percent. In the market for dissolving wood pulp, limited supply due to production losses met with good demand, thereby preventing a similarly strong correction.

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1 Source: IWF, World Economic Outlook, July 2023; The Conference Board; Insee; GfK

2 Sources: ICAC, Cotton Outlook, CCFG, China Cotton Association

3 Source: ITMF, 21st Global Textile Industry Survey, July 2023

4 Sources: Nominal sales, estimate based on statistics at country level

The Development of Business in the Lenzing Group

The Lenzing Group's business trends during the first half of 2023 largely reflected the subdued market trends. After the market environment had deteriorated significantly in the third and fourth quarters of the previous year, signs of recovery emerged during the first and second quarter in terms of demand as well as raw material and energy costs. Textile fibers recorded improving demand. Business with nonwoven fibers and with dissolving wood pulp proved to be very stable. Raw material and energy costs decreased, but remained at elevated levels.

Lenzing launched a reorganization and cost-cutting program in the third quarter of 2022 and is fully on track with its implementation. More than EUR 70 mn in annual cost savings are targeted once the program has been fully implemented. In addition, measures were initiated to bolster free cash flow, further steps were taken to reduce working capital, and currency and energy price hedging were restructured.

At the same time, in the reporting period Lenzing launched a program to strengthen its sales activities and to improve its revenue. In order to meet market requirements at the highest level, Lenzing continues to invest in the development of premium products and services in line with its "Better Growth" corporate strategy, consistently placing customer needs at the center of its work.

During the reporting period, Lenzing also successfully implemented a capital increase with subscription rights for existing shareholders. The gross issue proceeds of approximately EUR 400 mn will be deployed to strengthen the balance sheet and liquidity position, to create additional flexibility in relation to the financing strategy and to support the Better Growth strategy. The effects of the capital increase will not be reflected in Lenzing Group's cash flow and balance sheet figures until the third quarter.

Revenue in the reporting period decreased by 3.4 percent year-on-year to EUR 1.25 bn. This reduction was primarily due to lower fiber revenues, while pulp revenues were up.

In addition to the current market environment, the earnings trend was particularly influenced by positive one-off effects from the valuation of biological assets and inventories (see note 4 to the interim consolidated financial statements). As a consequence, earnings before interest, tax, depreciation and amortization (EBITDA) in the first half of 2023 decreased by 27.7 percent year-on-year to EUR 136.5 mn. The EBITDA margin reduced from 14.6 to 10.9 percent. Earnings before interest and tax (EBIT) amounted to minus EUR 12 mn (compared to EUR 95.6 mn in the first half of 2022) and the EBIT margin stood at minus 1 percent (compared to 7.4 percent in the first half of 2022). Earnings before tax (EBT) amounted to minus EUR 76.1 mn (compared to EUR 100 mn in the first half of 2022).

The tax income of EUR 10.3 mn (after a tax expense of EUR 27.7 mn in the first half of 2022) is influenced by currency effects due to the translation of tax items from the local to the functional currency and the valuation allowance of tax assets of individual Group companies.

The details of the revenue and earnings trends in the year under review are as follows:

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

			Change	
	01-06/2023	**01-06/2022**	**Absolute**	**Relative**
Revenue	**1,250.2**	**1,293.6**	**(43.4)**	**(3.4)%**
Cost of sales	(1,064.4)	(1,010.5)	(53.9)	5.3%
Gross profit	**185.8**	**283.2**	**(97.4)**	**(34.4)%**
Other operating income	24.9	43.8	(18.9)	(43.1)%
Selling expenses	(133.0)	(140.3)	7.3	(5.2)%
Administrative expenses	(63.4)	(72.8)	9.3	(12.8)%
Research and development expenses	(10.3)	(14.8)	4.4	(30.0)%
Other operating expenses	(15.9)	(3.5)	(12.4	351.6%
EBIT	**(12.0)**	**95.6**	**(107.6)**	**n/a**
Financial result	(64.1)	4.4	(68.5)	n/a
EBT	**(76.1)**	**100.0**	**(176.1)**	**n/a**
Income tax expense	10.3	(27.7)	38.0	n/a
Net profit/loss for the period[1]	**(65.8)**	**72.3**	**(138.1)**	**n/a**

Cash flow from operating activities amounted to minus EUR 29.2 mn in the first half of 2023 (compared to EUR 15.2 mn in the first half of 2022) due to the earnings trend. Free cash flow amounted to minus EUR 165.4 mn (compared with minus EUR 372.7 mn in the first half of 2022), particularly due to the negative result and the completion of strategic investment projects.

Capital expenditures for intangible assets, property, plant and equipment and biological assets (CAPEX) amounted to EUR 136.5 mn in the reporting period (down from EUR 389 mn in the first quarter of 2022) including due to the investment projects in China and Indonesia. Compared to December 31, 2022, cash and cash equivalents decreased by 24.7 percent to EUR 341.5 mn as of June 30, 2023.

Total assets decreased by 0.6 percent compared to December 31, 2022 and amounted to EUR 5.49 bn as of June 30, 2023. Adjusted equity decreased by 3.7 percent to EUR 2.01 bn, reflecting the trend in operating earnings. As a consequence, the adjusted equity

[1] Profit (loss) after taxes

ratio amounts to 36.6 percent. Net financial debt amounted to EUR 1.95 bn as of June 30, 2023 (compared to EUR 1.8 bn as of December 31, 2022). As a consequence, net gearing rose to 97.1 percent as of the reporting date (December 31, 2022: 86.2 percent).[1] Trading working capital increased by 8.8 percent to EUR 620.7 mn, mainly reflecting a decrease in inventories of EUR 46.5 mn as a result of accelerated inventory reduction and an offsetting negative effect from the significantly lower level of trade payables compared to December 31, 2022.

[1] Since the second quarter of the 2023 financial year, net financial debt is presented excluding lease liabilities (see the supplement to the management report "Notes on the Financial Performance Indicators of the Lenzing Group").

The Development of Business in the Divisions

The management of the Lenzing Group's business is allocated to the two divisions "Fibers" and "Pulp".

In the first half of 2023, the implementation of the "Better Growth" corporate strategy was driven forward. In accordance with the strategy and following the successful implementation of the two key projects in Thailand and Brazil, Lenzing will continue on its profitable growth trajectory, sharpen its focus on sustainable and high-quality premium textile fibers and nonwoven fibers, and in parallel advance the transition from a linear to a circular economy model.

Lenzing also announced personnel changes on its Managing Board. Robert van de Kerkhof, Chief Commercial Officer Fiber and a Managing Board member since 2014, informed the Supervisory Board that he would not be available for a further extension of his contract, which runs until December 31, 2023. He will continue to drive forward the sustainability area, including the Carbon Roadmap, as Chief Sustainability Officer until the end of his current term of office. CEO Stephan Sielaff will essentially assume responsibility for sales in the Fibers Division. The Lenzing Managing Board will thereby be reduced from four to three members as of January 1, 2024.

Fiber Division

The Fiber Division comprises all Lenzing Group business activities with its specialty fibers based on cellulosic or recycled materials.

Specialty fibers are Lenzing's great strength. With the lyocell plant opened in Thailand last year and the investments in existing production sites, Lenzing aims to generate 100 percent of fiber revenues from the specialty fiber business under the TENCEL™, LENZING™ ECOVERO™ and VEOCEL™ brands.

Since 2021, Lenzing has invested more than EUR 200 mn in production sites in China and in Indonesia in order to convert existing capacities for generic viscose into capacities for environmentally responsible specialty fibers.

In Nanjing (China), the conversion of a production line to TENCEL™ modal fibers for textiles and apparel was successfully completed in the first quarter of 2023. Lenzing is thereby able to offer locally produced TENCEL™ fibers to its Chinese customers for the first time. Due to the conversion of the line with a nameplate capacity of 35,000 tonnes per year, the fiber portfolio of the production site now consists exclusively of specialty fibers. Moreover, Lenzing is working consistently on the gradual conversion of the Chinese site to green energy in order to further reduce carbon emissions.

As part of the investments at the site in Purwakarta (Indonesia), Lenzing is creating additional capacity for LENZING™ ECOVERO™ fibers. Lenzing is investing locally in reducing carbon emissions as well as air and water emissions. The conversion work is proceeding according to plan, and the site will be converted into a pure specialty viscose supplier prospectively before the end of the year.

In addition to the lyocell plant in Thailand, investments at existing sites are also in line with Lenzing's targets to reduce carbon emissions per tonne of product by 50 percent by 2030, and to be climate-neutral by 2050.

During the reporting period, Lenzing received further scientific evidence that its fibers biodegrade in the ocean at the end of their lifecycle and thereby become part of the ecosystem again. Scientists at the renowned academic research institute Scripps Institution of Oceanography (SIO) at the University of California, San Diego, confirmed as early as 2021 that LENZING™ lyocell fibers are completely degraded at the ocean surface within a very short timespan. In a second study published in May 2023,[1] the biodegradability of cellulose-based fibers such as LENZING™ Lyocell fibers, LENZING™ Viscose fibers and LENZING™ modal fibers was also proven on the seabed (at a depth of around 12 meters), making them definitely a better alternative to petroleum-based fibers. The studies were the result of an independent project aimed at understanding "end-of-life" scenarios for textiles and nonwovens disposed of in the environment.

With the positioning of its product brands, Lenzing has been sending a strong message to consumers since 2018. With TENCEL™ and LENZING™ ECOVERO™ as umbrella brands for all specialty products in the textile segment, VEOCEL™ as the umbrella brand for all specialty nonwoven products, and LENZING™ for all industrial applications, the company showcases its strengths in a targeted manner. Lenzing also enhanced the visibility of its brands in the first half of 2023 through targeted communication measures. The TENCEL™ brand again achieved a strong leadership position among the ingredient brands of the textile and apparel industry in the global awareness ranking.

The Fiber Division's external revenue reached a level of EUR 927.5 bn in the first half of 2023, of which 64.1 percent was attributable to textile fibers and 35.9 percent to nonwoven fibers. Fiber sales volumes decreased to approximately 408,000 tonnes (down from approximately 449,000 tonnes in the first half of 2022) due to market developments. The share of specialty fibers in fiber revenue increased to 78.2 percent (compared to 71.4 percent in the first half of 2022). The division's earnings (EBITDA) amounted to minus EUR 45.2 mn, while operating earnings (EBIT) stood at minus EUR 109.7 mn.

Textile fibers

The first half of 2023 continued to be characterized by a difficult market environment for textile fibers. Following the sharp drop in demand in the third and fourth quarters of the previous year, textile fibers recorded subdued but improving demand in the first quarter

[1] https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0284681

of this year. Although recovery trends strengthened further in the second quarter, demand remained at a low level. In particular, this was due to persistently high stock levels along the value chain and subdued consumer confidence in key markets in Europe and the USA.

Although the recovery is proving to be slower than expected, the TENCEL™, TENCEL™ LUXE and LENZING™ ECOVERO™ brands continued to perform well within the global fiber market. Lenzing again succeeded in differentiating itself from the competition in the reporting period through continuous innovation work in the area of sustainability and the circular economy as well as targeted measures in the “ingredient branding” area.

Together with partner companies from Pakistan, Brazil and Spain, Lenzing presented the TENCEL™ brand “Fiber Recycling Initiative” in the second quarter of 2023. This aims to advance the circular economy within the global textile industry, focusing in a first step on the production of denim fabrics from mechanically recycled TENCEL™ Lyocell fibers. A further highlight of the collaboration with partners along the value chain was the launch of the two denim collections “Zero Cotton” and “Zero Virgin Cotton” with small carbon footprints and authentic denim look.

Lenzing also presented an industry-wide innovation during the reporting period that reduces discoloration of garments and fabrics made from wood-based cellulosic fibers during high-temperature manufacturing processes. This new solution will be introduced first for underwear and then also for outerwear and ready-to-wear goods.

Also in the second quarter of 2023, Lenzing launched a strategic partnership aimed at increasing the share of plant-based and biodegradable materials without fossil fuels in the production of textiles on both warp knitting and flat knitting machines.

Business with TENCEL™ LUXE filaments continued to perform well in the first half of 2023. Interest in the market, especially in the athleisure segment, has continued to grow, as has the number of co-brandings, and the vauch brand further increased its visibility in the wake of Paris Haute Couture and London Fashion weeks. In addition, debottlenecking measures at the pilot plant increased production volumes while improving quality.

The success of the TENCEL™ and LENZING™ ECOVERO™ brands is also reflected in the cooperation with a total of more than 380 brand partners in the first half of 2023, including international or young brands such as Marco O’Polo, Reformation, VOGUE, TwoThirds, Jockey, Kraus Jeans, Aimer, ANTA, Wacoal, Fruit of the Loom, The Paradise, Pepe Jeans, Country Road and Cotton On.

As part of the successful collaboration with RCGD Global, customized dresses made from TENCEL™ lyocell fibers and TENCEL™ LUXE filaments were also presented to a global audience at the Academy Awards 2023, further increasing the brands’ visibility. The global campaign, now in its fourth consecutive year, reached 781 million people across multiple platforms in three weeks.

Nonwoven fibers

The nonwoven fibers sector is an important strategic pillar of the Lenzing Group. Lenzing fibers are marketed under the VEOCEL™ brand and are deployed, in particular, in hygiene applications, which are experiencing comparatively stable demand.

Lenzing continued to develop its nonwovens strategy in the reporting period and adapted it to the goals of its “Better Growth” corporate strategy. Building on this, Lenzing will continue to drive the transformation of the nonwovens market towards the increased use of sustainable cellulosic fibers. Lenzing has also set itself the goal of developing the nonwovens market even more effectively with targeted activities, products and services, as well as providing agile support to partners along the value chain in the development of sustainable product solutions from cellulosic fibers. The New Business Development area, and thereby also the Lenzing Nonwoven Innovation Center, will play a central role in this context. This serves Lenzing as an innovation hub in the development and testing of cellulosic fibers and as a development partner for strategic customers.

Despite the challenging general market conditions, the sustainability trend continues to be one of the driving forces in the nonwovens industry. Interest in products made from 100 percent plant-based cellulose, for example, remains high. Lenzing produced further sustainable innovations during the reporting period, such as the first completely chlorine-free VEOCEL™ Lyocell TCF fiber, which support this trend. Lenzing expanded its portfolio of sustainable viscose fibers worldwide by launching carbon neutral[1] VEOCEL™ viscose fibers in Europe and the USA. In Asia, Lenzing plans to convert its existing production capacities for conventional viscose to environmentally responsible specialty fibers.

For the globally growing market for flushable products, for example, Lenzing recently started offering optimized VEOCEL™ Lyocell Shortcut fibers. Developed for use in the wetlaid process, these fibers specifically excel in providing better and more uniform processability within the process, and in supporting the production of higher quality nonwovens. The fibers are offered on a carbon neutral basis, thereby enabling customers to significantly reduce their environmental footprint.

Further steps were also taken in the reporting period to commercialize the nonwoven technology developed by Lenzing (LENZING™ Nonwoven Technology) for specific applications. Lenzing has been working for several years on the development of this technology for the production of nonwovens directly from dissolving wood pulp. Tests have confirmed the wide range of applications and good performance, and the first qualification orders were placed in the first half of 2023.

Lenzing also successfully expanded its number of co-branding partners in the first half of the year. Following preparations last year, Lenzing and Neutrogena launched a co-branding partnership in the first half of 2023 for a digital campaign focusing on the biodegradability of wipes made from VEOCEL™ fibers.

[1] Carbon neutrality is achieved by offsetting remaining GHG emissions using verified compensation measures (e.g., reforestation) and by redeeming carbon allowances so that the impact of global warming from anthropogenic activities is zero.

Lenzing also introduced the VEOCEL™ Care campaign to raise consumer awareness of plastic reduction and the use of biodegradable wet wipes. This campaign underscores the VEOCEL™ brand's mission to promote a sustainable future for generations to come.

Co-products of fiber production

At all locations where the Lenzing Group produces viscose or modal fibers, manufactured co-products include LENZING™ sodium sulfate. This is used in the detergent and glass industries and for the production of food and animal feed. In the reporting period, sales volumes decreased in line with fiber production.

Pulp Division

The Pulp Division bundles all Lenzing Group business activities from wood purchasing through to the production and sale of dissolving wood pulp and biorefinery products as well as the purchase of dissolving wood pulp. In addition to its pulp plants in Paskov (Czech Republic) and Lenzing (Austria), the company has been operating a new pulp plant in Indianópolis (Brazil) since 2022. With a nameplate capacity of 500,000 tonnes per year, it is the largest of its kind in the world and thereby contributes significantly to strengthening the Group's own supply of dissolving wood pulp. It also ranks as one of the most productive and energy-efficient plants in the world and is designed to feed surplus electricity into the public grid as renewable energy.

In line with its "Better Growth" strategy, Lenzing will further strengthen its recycling activities and accelerate the transformation of the textile and nonwovens industries from a linear to a circular economy model. Lenzing has proactively developed and promoted innovations in recycling for several years (such as the REFIBRA™ and Eco Cycle technologies) in order to provide solutions to the global textile waste problem. Since 2021, Lenzing has been working with Swedish pulp producer Södra to jointly develop new processes for recycling used textiles on an industrial scale. In the reporting period, the project[1] was supported by an EU grant of EUR 10 mn under the LIFE 2022 program.[2]

The Pulp Division's external revenue amounted to a total of EUR 321 mn in the first half of 2023. The division's earnings before interest, tax, depreciation and amortization (EBITDA) amounted to EUR 203.6 mn and its earnings before interest and tax (EBIT) to EUR 122.8 mn.

Wood

The situation on the timber markets has largely stabilized after the dislocations in the previous year, and the extreme price fluctuations have in part receded.

The Lenzing Group's current procurement strategy entailing long-term master agreements achieved a good stabilizing effect on volumes and prices in the reporting period. As a consequence, Lenzing supplied its pulp sites in Lenzing (Austria) and Paskov (Czech Republic) with sufficient wood.

[1] Project 101113614 — LIFE22-ENV-SE-TREATS
[2] https://cinea.ec.europa.eu/programmes/life_en

Audits in accordance with the Forest Stewardship Council® (FSC®) and the Programme for the Endorsement of Forest Certification (PEFC) confirmed for both sites that, in addition to stringent forestry laws in the supplier countries, all wood used derives from PEFC and FSC certified or controlled sources.[3]

To provide the biomass in Indianópolis, LD Celulose secured over 44,000 hectares of FSC®-certified commercial forest and leased additional land in order to have at its disposal approximately 70,000 hectares of FSC ®-certified forest land when completed.[4] These plantations operate in full accordance with the Lenzing's guidelines and high standards for wood and pulp sourcing.

Biorefinery

Pulp

The Pulp Division supplies the Lenzing Group's fiber production locations with high-quality fiber pulp, and operates its own dissolving wood pulp plants at the Lenzing, Paskov and Indianópolis sites. Most of the dissolving wood pulp sourced externally is purchased on the basis of long-term contracts.

Lenzing's pulp plants produced approximately 495,000 tonnes of dissolving wood pulp in the first half of 2023.

The price of imported hardwood-based dissolving wood pulp in China was down by 12 percent year-on-year in the reporting period, to around USD 901 per tonne on average.

Biorefinery products

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

Lenzing also benefited from the trend toward greater sustainability and regional supply chains in the reporting period. A lifecycle analysis performed by research institute Quantis confirmed that the carbon footprint of LENZING™ Acetic Acid Biobased is more than 85 percent less than that of comparable products based on fossil resources. To meet customers' growing demand for information, lifecycle analyses were also conducted for other biorefinery products.

Revenue from the biorefinery products LENZING™ Acetic Acid Biobased and LENZING™ Furfural Biobased performed well in the first half of 2023 due to rising prices.

In May, Lenzing celebrated the 40th anniversary of its biorefinery concept. Long-term strategic partnerships have existed with individual customers since the outset.

[3] License code: FSC-C041246 and PEFC/06-33-92
[4] FSC license code: FSC-C175509, FSC-C165948

Energy and other raw material supplies for the divisions

In the Fiber and Pulp divisions, energy and other raw materials are significant factors influencing the Lenzing Group's financial position and performance.

Energy

With its biorefinery concept at its Lenzing, Paskov and Indianópolis sites, Lenzing is one of the pioneers of fiber and pulp production that is as self-sufficient in energy as possible, and is continuously working to enhance energy efficiency at its other production sites.

The energy reserves at the Lenzing Group's European sites remain very well filled in light of the geopolitical situation and the prevailing uncertainties.

The situation on the European energy markets eased significantly in the first half of 2023 following the dislocations of the previous year. Political efforts to fill gas storage facilities before the winter of 2022/23 made a significant contribution to stabilizing prices. In addition, the winter in the northern hemisphere was very warm, with few exceptions, and this reduced heating output. Area-wide conservation measures and lower production in some sectors of energy-intensive industry also led to a reduction in the heating load. The gas price in Europe subsequently decreased by 53 percent compared to the first half of 2022, from EUR 99 per MWh to approximately EUR 46 per MWh, which was similarly observed in the global liquefied natural gas market. The electricity-generation costs of gas-fired power plants, in other words, the costs required to convert energy into electrical energy, have dropped significantly accordingly. Combined with good renewable energy production and good water supplies in Austria, the electricity price was down by 45 percent compared to the first half of 2022, from EUR 206 per MWh to EUR 114 per MWh. Only the CO_2 price increased within the energy complex, rising by 4 percent to EUR 87 per tonne.

The coal price was down by 50 percent compared to the first half of 2022 to USD 132 per tonne, similar to the gas price. The crude oil market was less affected by the supply crisis in Europe. As a consequence, the oil price decreased by just 23 percent year-on-year, from USD 105 per barrel to USD 80 per barrel.

The Lenzing Group partially restructured its energy price hedging in the wake of the supply crisis. Natural gas and electricity are now procured in accordance with a defined purchasing strategy, under which part of the energy required is procured via fixed supply contracts with fixed prices on the forward market. For this reason, spot market trends have only a weakened impact on the company's energy costs.

The energy plants at the Lenzing site operated mainly in normal mode during the reporting period with very low downtimes.

In April, Lenzing signed a contract for the acquisition of the 43 MW biomass power plant of ENERGIE 42 Beteiligungs GmbH located in the Heiligenkreuz Business Park in Austria's Burgenland region. This strategic investment will significantly reduce dependence on fossil energy at the production site in Heiligenkreuz. Around 50 percent of the natural gas currently used can be replaced by energy from renewable sources in the future.

With the continuous expansion of renewable energies, Lenzing is making itself less dependent on global energy markets and is continuing to reduce its carbon emissions in line with its strategic targets.

The power plants in Paskov operated normally during the reporting period. Surplus energy was fed into the public power grid.

Natural gas prices in North America recovered in line with the international trend. At the Mobile (USA) site, the price of natural gas was down by 42 percent compared with the first half of 2022. The electricity price was 27 percent higher than in the first half of the previous year.

The plants in Purwakarta (Indonesia) were operated with a high level of availability and were further optimized. The price of coal recovered slightly, and was down by 26 percent. The grid electricity price decreased by 2 percent compared with the first half of 2022. Lenzing has been sourcing green electricity from renewable sources at its Indonesian site since the third quarter of last year.

Steam prices at the Nanjing site in China are recovering at a slower pace compared to coal prices and were 4 percent lower than in the first half of 2022. The grid electricity price decreased by 7 percent in the same period. The changeover in energy production from coal to natural gas, which is intended to reduce carbon emissions, was continued in the reporting period.

In the first half of 2022, the lyocell plant at the Prachinburi site (Thailand) was commissioned. The steam price increased by 2 percent and the electricity price by 33 percent compared to the first half of 2022.

Other raw materials

The sharp rise in energy prices due the pandemic and the Ukraine war also led to supply shortages and significant price increases on global commodity markets. In the period under review, most commodities recorded a significant recovery, although prices are still at elevated levels.

Caustic soda

Caustic soda is used in the production of dissolving wood pulp and is also an important primary product for the production of viscose and modal fibers. It arises as a byproduct from chlorine production. Prices for caustic soda fell significantly at the beginning of the year and are currently stagnating at a still elevated level. This is due to a stable high level of demand coupled with a shortage of supply due to diminishing demand for chlorine.

Sulfur

Sulfur is an important starting material for the production of carbon disulfide and sulfuric acid. In turn, both raw materials are used in the viscose process. Following record levels in the first half of 2022, sulfur prices in the reporting period were stable at the 2021 level.

Others

The "Others" area mainly comprises central headquarters functions and overarching activities as well as R&D activities and the activities of BZL-Bildungszentrum Lenzing GmbH (training and personnel development). Revenue in the "Others" area reached EUR 1.8 mn in the first half of 2023. The result (EBITDA) amounted to minus EUR 22.5 mn, while the operating result (EBIT) stood at minus EUR 25.7 mn.

The Lenzing share

In the reporting period, the Managing Board of Lenzing Aktiengesellschaft decided, with the approval of the Supervisory Board, to carry out a fully guaranteed cash capital increase with subscription rights for existing shareholders. As of July 10, 2023, this resulted in the issuance of 12,068,180 new no-par value bearer shares with dividend entitlement from January 1, 2023 onward.

The related issuance of subscription rights has led to a technical adjustment of the share price of Lenzing AG, as the shares were traded "ex subscription right" as of June 19, 2023.

The Lenzing share started the 2023 trading year at a price of EUR 48.38 (opening price on January 2, 2023, taking into account the technical adjustment in connection with the capital increase) and reached its high for the year of EUR 67.37 on March 8, 2023, as well as its low to date of EUR 42.40 on June 28. It closed the reporting period at EUR 44.85. This corresponds to a reduction in the share price of minus 7.3 percent compared with the start of the year. The ATX Index, Vienna's benchmark index, ended the first half of the year up slightly by 0.9 percent. No dividend was distributed this year for the 2022 financial year.

The 79th Annual General Meeting of Lenzing AG was held as an attendance event for the first time since 2019. The AGM ratified the actions of the Managing and Supervisory Board members for the 2022 financial year and set the remuneration of the Supervisory Board members for the 2023 financial year in advance. The remuneration policy of Lenzing AG for the performance-based remuneration of the Managing Board is linked not only to financial performance criteria but also to non-financial sustainability criteria (ESG), which further promote the sustainable business strategy.

Risk Report

The risk report for the first half of 2023 is based on estimates of the management of the Lenzing Group and covers the main business risks for 2023 and the medium term.

Current risk environment

Due to the accumulation of crises, the global risk environment is largely unchanged compared with previous year and continues to pose a major challenge for policymakers and business. The ongoing war in Ukraine, the resultant energy crisis, high inflation and the associated rise in interest rates pose the risk of a global recession and are exerting an extremely negative impact on economic growth. With the economy picking up in Asia, demand on the fiber market should recover slightly in the second half of the year compared to the first half of 2023.

A detailed analysis of the trends in the global fiber market during the reporting period and the related risks for the Lenzing Group is presented in the “General Market Environment” section.

Lenzing risk outlook for the second half of 2023

An assessment of the risk for the second half of the year for the Lenzing Group is based on the current status of the global risk landscape. Further negative developments in global trouble spots could lead to a deterioration in the Lenzing Group’s business performance.

Sluggish demand for textiles in Lenzing’s main sales markets, mainly due to rising inflation worldwide, and recessionary trends also impacted fiber price trends in the first half of 2023.

The expected recovery of the global fiber business in the second half of 2023 is subject to uncertainty. It depends primarily on a forecast increase in demand in the textile segment, as well as on the development of geopolitical tensions primarily in Europe and Asia. A continuation of low demand for cotton may also have a negative impact on demand for wood-based cellulosic fibers. In conjunction with this, a continuing stagnating price scenario in the fiber sector cannot be ruled out due to low cotton prices. The Lenzing Group’s “Better Growth” corporate strategy seeks, among other objectives, to counteract market-related price and demand fluctuations through innovation and the development, production and distribution of high-quality premium products.

The supply of dissolving wood pulp to the fiber mills is considered to be secured in the long term due to the start-up of the new pulp mill in Brazil. The risk of supply bottlenecks in the second half of 2023 is assessed as low.

Following the previous year’s enormous price increases for key raw materials, prices began to recover and to decrease significantly in the reporting period. For the second half of the year, assuming the risk situation remains unchanged, a further slight easing of prices is expected, although price spikes cannot be ruled out.

Fluctuations in energy prices and supply outages can have a negative impact on production sites. The first half of 2023 was characterized by sharply falling energy prices in Europe. However, energy prices were still well above the price level before the start of the Ukraine war. Due to the ongoing geopolitical uncertainty in Russia, further energy price fluctuations and the associated impact on the Lenzing Group’s European production sites cannot be completely ruled out in the second half of 2023, despite the currently well-filled gas storage facilities in Europe. The acquisition of the biomass power plant in Heiligenkreuz in the first half of 2023 represents an additional compensatory measure in this site’s energy dependency. In addition, an energy price hedging model for exposed production sites was introduced in the reporting period.

The US dollar depreciated against major currencies during the reporting period, fluctuating in a range of approximately 1.05 to 1.11 against the euro. The Chinese yuan fluctuated in a range of 7.20 to 7.91 against the euro. A depreciation of both currencies against the euro would have a negative impact on Lenzing’s open currency volume. Due to the recent capital increase and the measures taken for individual loans, the liquidity risk for the second half of 2023 is classified as lower.

In the category of operational risks such as fire risks and business interruptions, as well as environmental and liability risks, no significant loss events occurred in the reporting period. Potential damages and losses would have a negative impact on the Lenzing Group’s financial performance.

Opportunities and risks of relevance to ESG (Environment, Social and Governance) are integrated into the Lenzing Group’s risk management system and are evaluated on a recurring basis in accordance with the internal risk management process. Due to the sometimes very long-term time horizon of ESG risks, no significant (negative) effects on Lenzing’s business results are expected in this risk category in the short term.

Logistical problems and delivery bottlenecks can have a negative impact on the progress of large projects in general. The major projects relevant to Lenzing in Brazil, Thailand and China were successfully completed. The completion of the large-scale project in Indonesia for the production of environmentally responsible specialty fibers is scheduled for the second half of 2023.

The uncertainty relating to the current forecast for the Lenzing Group’s short and medium-term business performance remains high. All relevant risks are described in full in the Annual Report.

Outlook

The war in Ukraine and the more restrictive monetary policy pursued by many central banks in order to combat inflation are expected to continue to influence global economic activity. The IMF warns that risks remain elevated overall and forecasts growth of 3 percent for both 2023 and 2024. The currency environment is expected to remain volatile in the regions of relevance to Lenzing.

This market environment continues to weigh on the consumer climate and on sentiment in the industries relevant to Lenzing. Recently, however, the outlook brightened somewhat according to a global survey by ITMF.[1]

In the trend-setting market for cotton, signs are emerging of a further buildup of stocks in the current 2022/23 crop season. Initial forecasts also see a further buildup of stocks in 2023/24, albeit to a lesser extent.

However, despite signs of recovery in both demand and raw material and energy costs, earnings visibility remains limited overall.

Lenzing is fully on track with the implementation of its reorganization and cost reduction program. These and further measures are aimed at positioning Lenzing in the best possible way for the expected market recovery.

In structural terms, Lenzing continues to anticipate growth in demand for environmentally responsible fibers for the textile and clothing industry as well as the hygiene and medical sectors. As a consequence, Lenzing is very well positioned with its "Better Growth" strategy and plans to continue driving growth with specialty fibers as well as its sustainability goals, including the transformation from a linear to a circular economy model.

The successful implementation of the key projects in Thailand and Brazil as well as the investment projects in China and Indonesia will further strengthen Lenzing's positioning in this respect.

Taking into consideration the aforementioned factors and assuming a further market recovery in the current financial year, the Lenzing Group continues to expect EBITDA in a range between EUR 320 mn and EUR 420 mn for 2023.

Lenzing, July 31, 2023
Lenzing Aktiengesellschaft

The Managing Board

Stephan Sielaff
Chief Executive Officer

Nico Reiner
Chief Financial Officer

Christian Skilich
Chief Pulp Officer

Robert van de Kerkhof
Chief Sustainability Officer

[1] Source: ITMF, 21st Global Textile Industry Survey, July 2023

Notes on the Financial Performance Indicators of the Lenzing Group

Interim Report 01-06/2023

The key financial indicators for the Lenzing Group are described in detail in the following section. These indicators are derived primarily from the condensed consolidated interim financial statements and the consolidated financial statements of the previous year of the Lenzing Group. The Management Board believes these financial indicators provide useful information on the financial position of the Lenzing Group because they are used internally and are also considered important by external stakeholders (in particular investors, banks and analysts).

The effects of the COVID-19 crisis and the Ukraine crisis on the operating activities, company performance and the related uncertainties are explained in the management report. Further explanations regarding the impact on the consolidated financial statements according to IFRS, in particular on estimates, assumptions and judgments, are provided in note 1 to the consolidated financial statements 2022.

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 - the EBIT is presented on the consolidated income statement and EBITDA is presented in the Financial Performance Indicators and, in order to provide a comparison of margins, in relation to group revenue (as the EBITDA margin and EBIT margin).

EUR mn		01-06/2023	01-06/2022
Earnings before interest and tax (EBIT)		(12.0)	95.6
+	Amortization of intangible assets and depreciation of property, plant and equipment, right-of-use assets and depletion of biological assets	149.5	94.3
-	Income from the release of investment grants	(1.0)	(1.0)
Earnings before interest, tax, depreciation and amortization (EBITDA)		**136.5**	**188.9**

EUR mn		01-06/2023	01-06/2022
Earnings before interest, tax, depreciation and amortization (EBITDA)		136.5	188.9
/	Revenue	1,250.2	1,293.6
EBITDA margin		**10.9%**	**14.6%**

EUR mn		01-06/2023	01-06/2022
Earnings before interest and tax (EBIT)		(12.0)	95.6
/	Revenue	1,250.2	1,293.6
EBIT margin		**(1.0)%**	**7.4%**

EBT

EBT measures the pre-tax earnings strength of the Lenzing Group and is shown on the consolidated income statement.

Gross cash flow

In the Lenzing Group, gross cash flow serves as the benchmark for the company's ability to convert gains/losses from operating activities (before changes in working capital) into cash and cash equivalents.

EUR mn		01-06/2023	01-06/2022
Net profit/loss for the period		(65.8)	72.3
+	Amortization of intangible assets and depreciation of property, plant and equipment, right-of-use assets and depletion of biological assets	149.5	94.3
+/−	Change in the fair value of biological assets	(42.5)	(3.1)
−	Income from the release of investment grants	(1.0)	(1.0)
+/−	Change in non-current provisions	(0.6)	(9.6)
−/+	Income / expenses from deferred taxes	(20.5)	(1.8)
+/−	Change in current tax assets and liabilities	(5.0)	18.4
+/−	Non-cash profit/loss from investments accounted for using the equity method	6.7	1.3
−/+	Other non-cash income / expenses	(40.1)	(1.0)
	Other non-cash income / expenses	(103.1)	3.1
Gross cash flow		**(19.3)**	**169.7**

Free cash flow

The free cash flow generated by the Lenzing Group shows the cash flow generated by operating activities - after the deduction of investments - which is available to service the providers of debt and equity. This indicator is also important for external stakeholders.

EUR mn		01-06/2023	01-06/2022
Cash flow from operating activities		(29.2)	15.2
−	Cash flow from investing activities	(137.7)	(378.8)
+	Acquisition of financial assets and investments accounted for using the equity method	2.4	0.2
−	Proceeds from the sale/repayment of financial assets and the sale of investments accounted for using the equity method	(0.9)	(9.2)
Free cash flow		**(165.4)**	**(372.7)**

CAPEX

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

Liquid assets

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

EUR mn	30/06/2023	31/12/2022
Cash and cash equivalents	333.2	446.9
+ Liquid bills of exchange (in trade receivables)	8.3	6.4
Liquid assets	**341.5**	**453.3**

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	30/06/2023	31/12/2022
Inventories	666.0	712.5
+ Trade receivables	318.0	293.6
- Trade payables	(363.4)	(435.4)
Trading working capital	**620.7**	**570.7**

EUR mn	2023	2022
Latest reported quarterly group revenue	627.1	595.5
x 4 (= annualized group revenue)	2,508.4	2,382.2
Trading working capital to annualized group revenue	**24.7%**	**24.0%**

Adjusted equity and adjusted equity ratio

Adjusted equity shows the Lenzing Group's independence from the providers of debt and its ability to raise new capital (financial strength). This figure includes equity as defined by IFRS as well as government grants less the proportional share of deferred taxes. Adjusted equity is used to compare equity and debt with total assets. This (and/or a similar indicator) is occasionally used as a financial covenant by lenders.

EUR mn	30/06/2023	31/12/2022
Equity	1,922.1	2,025.9
+ Non-current government grants	14.9	15.0
+ Current government grants	99.2	67.7
- Proportional share of deferred taxes on government grants	(25.7)	(20.0)
Adjusted equity	**2,010.5**	**2,088.6**
/ Total assets	5,490.7	5,525.0
Adjusted equity ratio	**36.6%**	**37.8%**

Net financial debt, net gearing and net debt

Net financial debt is used by the Lenzing Group as the benchmark for its financial indebtedness and capital structure. It is also an important indicator for external stakeholders. The ratio of net financial debt to adjusted equity (net gearing) illustrates the relation of net debt to adjusted equity. This (and/or a similar indicator) is occasionally used as a financial covenant by lenders. Net debt in the Lenzing Group measures the level of financial indebtedness, including the provisions for severance payments and pensions. Since the second quarter of the 2023 financial year, net financial debt is presented excluding lease liabilities (see the table "Carrying amounts, category, fair value and fair value hierarchy of financial instruments" in note 6 to the Lenzing Group's interim consolidated financial statements as of June 30, 2023). In previous financial years, lease liabilities were included in net financial debt. The change in the calculation was made because the key stakeholders of the Lenzing Group also monitor net financial debt excluding lease liabilities and, in particular, the valorization of land use rights (see note 4 of the Lenzing Group's interim consolidated financial statements as of June 30, 2023) led to a significant increase in lease liabilities in the 2023 financial year. As a consequence, further inclusion would be inappropriate.

EUR mn	30/06/2023	31/12/2022
Current financial liabilities	335.5	250.3
+ Non-current financial liabilities	2,100.4	2,071.9
- Liquid assets	(341.5)	(453.3)
Net financial debt incl. lease liabilities	**2,094.4**	**1,869.0**
- Current lease liabilities	(7.9)	(6.2)
- Non-current lease liabilities	(133.6)	(63.3)
Net financial debt	**1,953.0**	**1,799.4**[1]

EUR mn	30/06/2023	31/12/2022
Net financial debt	1,953.0	1,799.4[1]
/ Adjusted equity	2,010.5	2,088.6
Net gearing	**97.1%**	**86.2%**[1]

EUR mn	30/06/2023	31/12/2022
Net financial debt	1,953.0	1,799.4[1]
+ Current lease liabilities	7.9	6.2
+ Non-current lease liabilities	133.6	63.3
+ Provisions for severance payments and pensions	76.9	77.6
Net debt	**2,171.4**	**1,946.6**

1) Since the second quarter of the 2023 financial year, net financial debt is presented excluding lease liabilities.

Consolidated Income Statement

for the period from January 1 to June 30, 2023

EUR mn

	Note	04-06/2023	04-06/2022	01-06/2023	01-06/2022
Revenue	(3)	627.1	678.6	1,250.2	1,293.6
Cost of sales		(502.4)	(524.4)	(1,064.4)	(1,010.5)
Gross profit		**124.7**	**154.3**	**185.8**	**283.2**
Other operating income		14.8	18.4	24.9	43.8
Selling expenses		(67.2)	(75.3)	(133.0)	(140.3)
Administrative expenses		(29.1)	(37.8)	(63.4)	(72.8)
Research and development expenses		(6.2)	(7.0)	(10.3)	(14.8)
Other operating expenses		(7.6)	(0.6)	(15.9)	(3.5)
Earnings before interest and tax (EBIT)[1]		**29.4**	**52.0**	**(12.0)**	**95.6**
Income from investments accounted for using the equity method		(0.8)	0.6	(4.1)	(0.5)
Income from non-current and current financial assets and liabilities		(1.9)	13.4	(7.9)	18.3
Financing costs		(28.6)	(7.5)	(52.1)	(13.4)
Financial result		**(31.2)**	**6.5**	**(64.1)**	**4.4**
Earnings before tax (EBT)		**(1.8)**	**58.5**	**(76.1)**	**100.0**
Income tax expense	(4)	1.0	(20.3)	10.3	(27.7)
Net profit/loss for the period		**(0.8)**	**38.2**	**(65.8)**	**72.3**
Attributable to:					
Shareholders of Lenzing AG		(23.7)	39.7	(104.2)	62.7
Non-controlling interests		15.7	(8.6)	24.0	(4.7)
Share planned for hybrid capital owners		7.2	7.2	14.4	14.4
Earnings per share		EUR	EUR	EUR	EUR
Diluted = basic		(0.89)	1.49	(3.92)	2.36

1) EBIT: Operating result, resp. earnings before interest and tax.

Consolidated Statement of Comprehensive Income

for the period from January 1 to June 30, 2023

EUR mn

	Note	04-06/2023	04-06/2022	01-06/2023	01-06/2022
Net profit/loss for the period		(0.8)	38.2	(65.8)	72.3
Items that will not be reclassified subsequently to profit or loss					
Remeasurement of defined benefit liability		0.0	8.4	0.0	14.9
Financial assets measured at fair value through other comprehensive income (equity instruments) – net fair value gain/loss on remeasurement recognized during the period	(6)	(0.3)	(3.9)	1.4	(14.1)
Income tax relating to these components of other comprehensive income		(0.1)	(1.1)	(0.3)	(0.2)
		(0.4)	**3.4**	**1.1**	**0.6**
Items that may be reclassified to profit or loss					
Foreign operations – foreign currency translation differences arising during the period		(10.4)	56.4	(27.9)	81.7
Foreign operations - reclassification of foreign currency translation differences due to loss of control		0.0	0.0	0.2	0.0
Cash flow hedges – effective portion of changes in fair value recognized during the period and non-designated components		18.2	(3.7)	19.8	19.0
Cash flow hedges – reclassification to profit or loss		(6.0)	9.5	(11.3)	16.0
Income tax relating to these components of other comprehensive income		(2.6)	(7.3)	(0.3)	(15.2)
Investments accounted for using the equity method - share of other comprehensive income (net of tax)		0.5	(0.7)	0.7	2.4
		(0.2)	**54.1**	**(18.9)**	**103.9**
Other comprehensive income (net of tax)		**(0.6)**	**57.5**	**(17.8)**	**104.5**
Total comprehensive income		**(1.4)**	**95.7**	**(83.6)**	**176.8**
Attributable to:					
Shareholders of Lenzing AG		(25.4)	84.6	(116.0)	142.4
Non-controlling interests		16.8	3.9	18.1	20.1
Share planned for hybrid capital owners		7.2	7.2	14.4	14.4

Lenzing AG

Consolidated Statement of Financial Position

as at June 30, 2023

EUR mn

Assets	Note	30/06/2023	31/12/2022
Intangible assets	(4)	47.8	43.8
Property, plant and equipment	(4)	3,348.4	3,413.1
Biological assets	(4)	172.7	127.7
Right-of-use assets	(4)	135.4	72.8
Investments accounted for using the equity method		20.5	26.5
Financial assets	(6)	33.9	29.0
Deferred tax assets	(4)	2.7	1.7
Current tax assets		15.6	15.9
Other assets		120.7	123.1
Non-current assets		**3,897.8**	**3,853.6**
Inventories	(4)	666.0	712.5
Trade receivables	(4,6)	318.0	293.6
Current tax assets		11.8	5.2
Other assets	(4)	253.2	200.8
Financial assets	(6)	10.7	12.4
Cash and cash equivalents	(6)	333.2	446.9
Current assets		**1,592.9**	**1,671.4**
Total assets		**5,490.7**	**5,525.0**

Equity and liabilities	Note	30/06/2023	31/12/2022
Share capital		27.6	27.6
Capital reserves		133.9	133.9
Hybrid capital		496.6	496.6
Other reserves		77.0	90.2
Retained earnings		883.7	991.7
Equity attributable to shareholders of Lenzing AG		**1,618.8**	**1,739.9**
Non-controlling interests		303.3	286.0
Equity	(4)	**1,922.1**	**2,025.9**
Financial liabilities	(6)	2,100.4	2,071.9
Government grants		14.9	15.0
Deferred tax liabilities	(4)	50.5	70.2
Provisions		90.7	91.5
Puttable non-controlling interests	(6)	284.8	266.1
Other liabilities		4.9	3.6
Non-current liabilities		**2,546.2**	**2,518.5**
Financial liabilities	(6)	335.5	250.3
Trade payables	(4)	363.4	435.4
Government grants		99.2	67.7
Current tax liabilities		29.4	27.9
Provisions		37.8	66.3
Other liabilities		157.1	133.0
Current liabilities		**1,022.3**	**980.6**
Total equity and liabilities		**5,490.7**	**5,525.0**

Consolidated Statement of Changes in Equity

for the period from January 1 to June 30, 2023

EUR mn

	Share capital	Capital reserves	Hybrid capital	Other reserves				Retained earnings	Equity attributable to shareholders of Lenzing AG and to hybrid capital owners	Non-controlling interests	Equity
				Foreign currency translation reserve	Financial assets measured at fair value through other comprehensive income	Hedging reserve and non-designated components	Actuarial gains/losses				
As at 01/01/2022	27.6	133.9	496.6	48.5	33.4	(18.8)	(48.0)	1,206.4	1,879.6	192.5	**2,072.1**
Net profit/loss for the period as per consolidated income statement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	77.1	77.1	(4.7)	**72.3**
Other comprehensive income (net of tax)	0.0	0.0	0.0	62.4	(10.6)	16.7	11.2	0.0	79.7	24.8	**104.5**
Total comprehensive income	0.0	0.0	0.0	62.4	(10.6)	16.7	11.2	77.1	156.7	20.1	**176.8**
Hedging gains and losses and cost of hedging transferred to the cost of non-current assets and cost of inventory	0.0	0.0	0.0	0.0	0.0	1.9	0.0	0.0	1.9	1.9	**3.8**
Transfer of gain on disposal of equity investments at fair value through other comprehensive income to retained earnings	0.0	0.0	0.0	0.0	(5.0)	0.0	0.0	5.0	0.0	0.0	**0.0**
Increase in capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	45.5	**45.5**
Measurement of puttable non-controlling interest recognized directly in equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(64.5)	(64.5)	0.0	**(64.5)**
Dividends paid (including hybrid coupon)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(115.5)	(115.5)	(0.2)	**(115.6)**
Transactions with equity holders	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(180.0)	(180.0)	45.4	**(134.6)**
As at 30/06/2022	27.6	133.9	496.6	110.9	17.9	(0.2)	(36.8)	1,108.4	1,858.2	259.9	**2,118.1**
As at 01/01/2023	27.6	133.9	496.6	97.5	15.6	16.5	(39.5)	991.7	1,739.9	286.0	**2,025.9**
Net profit/loss for the period as per consolidated income statement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(89.8)	(89.8)	24.0	**(65.8)**
Other comprehensive income (net of tax)	0.0	0.0	0.0	(18.2)	1.1	5.3	0.0	0.0	(11.8)	(6.0)	**(17.8)**
Total comprehensive income	0.0	0.0	0.0	(18.2)	1.1	5.3	0.0	(89.8)	(101.6)	18.1	**(83.6)**
Hedging gains and losses and cost of hedging transferred to the cost of non-current assets and cost of inventory	0.0	0.0	0.0	0.0	0.0	(0.8)	0.0	0.0	(0.8)	(0.5)	**(1.3)**
Transfer of gain on disposal of equity investments at fair value through other comprehensive income to retained earnings	0.0	0.0	0.0	0.0	(0.5)	0.0	0.0	0.5	0.0	0.0	**0.0**
Measurement of puttable non-controlling interest recognized directly in equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(18.7)	(18.7)	0.0	**(18.7)**
Dividends paid (including hybrid coupon)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.3)	**(0.3)**
Transactions with equity holders	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(18.7)	(18.7)	(0.3)	**(18.9)**
As at 30/06/2023	**27.6**	**133.9**	**496.6**	**79.4**	**16.2**	**20.9**	**(39.5)**	**883.7**	**1,618.8**	**303.3**	**1,922.1**

Consolidated Statement of Cash Flows (condensed)

for the period from January 1 to June 30, 2023

EUR mn

		Note	01-06/2023	01-06/2022
Net profit/loss for the period			(65.8)	72.3
+	Amortization of intangible assets and depreciation of property, plant and equipment, right-of-use assets and depletion of biological assets		149.5	94.3
−/+	Other non-cash income / expenses		(103.1)	3.1
Gross cash flow			(19.3)	169.7
+/−	Change in inventories		83.9	(128.4)
+/−	Change in receivables		(41.4)	(28.6)
+/−	Change in liabilities		(52.3)	2.5
Change in working capital			(9.9)	(154.5)
Cash flow from operating activities			(29.2)	15.2
−	Acquisition of intangible assets, property, plant and equipment and biological assets (CAPEX)	(4)	(136.5)	(389.0)
−	Acquisition of financial assets and investments accounted for using the equity method		(2.4)	(0.2)
+	Proceeds from the sale of intangible assets, property, plant and equipment and biological assets		0.3	1.1
+	Proceeds from the sale/repayment of financial assets and the sale of investments accounted for using the equity method		0.9	9.2
Cash flow from investing activities			(137.7)	(378.8)
+	Capital injections to consolidated companies by non-controlling interests		0.0	44.7
−	Dividends paid		(0.3)	(115.6)
+	Investment grants		0.8	0.0
+	Increase in other financial liabilities	(6)	134.9	237.5
−	Repayment of bonds and private placements		0.0	(36.0)
−	Repayment of other financial liabilities		(75.8)	(23.2)
Cash flow from financing activities			59.6	107.4
Total change in liquid funds			(107.3)	(256.2)
Liquid funds at the beginning of the year			446.9	1,113.3
Currency translation adjustment relating to liquid funds			(6.4)	9.0
Liquid funds at the end of the period			333.2	866.0
Additional information on payments in the cash flow from operating activities:				
Interest payments received			3.5	4.8
Interest payments made			61.0	20.1
Income taxes paid			8.0	11.4
Distributions received from investments accounted for using the equity method			2.6	0.8

Notes to the Consolidated Financial Statements: Selected Notes

on the condensed consolidated interim financial statements as at June 30, 2023

General Information

Note 1. Basic Information

Description of the company and its business activities

Lenzing Aktiengesellschaft (Lenzing AG), which maintains its registered headquarters in 4860 Lenzing, Werkstrasse 2, is the parent company of the Lenzing Group (the "Group"). The main shareholder of Lenzing AG as at June 30, 2023 is the B&C Group, which directly and indirectly holds an investment of 52.25 percent (December 31, 2022: 52.25 percent) in the share capital of Lenzing AG. The core business of the Lenzing Group is the production and marketing of wood-based cellulosic fibers.

Basis of reporting

The condensed consolidated interim financial statements for the period from January 1 to June 30, 2023 were prepared in accordance with IAS 34 (Interim Financial Reporting). They are in accordance with the International Financial Reporting Standards ("IFRS"), which were endorsed in the EU and required mandatory application as of the reporting date. The condensed consolidated interim financial statements of the Lenzing Group as at June 30, 2023 are based on the consolidated financial statements as at December 31, 2022 and should therefore always be read in conjunction with these statements. The accounting policies used in the consolidated interim financial statements are the same as were applied for the consolidated financial statements for the 2022 financial year.

The reporting currency is the euro (EUR), which is also the functional currency of Lenzing AG. The functional currency of the major subsidiaries is the euro (EUR) or US-Dollar (USD).

Audit and review

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

Developments in the first half-year 2023

In addition to the subdued market trends, the Lenzing Group's earnings trend particularly reflects the continued high level of raw material and energy costs. The past uncertainties in relation to European natural gas supplies had affected only one production site. This uncertainty was resolved by the acquisition of a biomass power plant (see note 2).). Other locations were not affected by this uncertainty or were already operating largely self-sufficiently in terms of energy. In order to secure supplies of energy and raw materials to the European fiber production sites, both short- and medium-term physical and financial hedges were implemented, and medium- and long-term strategies to switch to alternative energy supplies were initiated. Problems in global supply chains, which have been exacerbated in some cases by the crisis, were countered by targeted measures.

Estimation uncertainty and judgments

The Managing Board of Lenzing AG uses estimates, assumptions and judgments in preparing the IFRS condensed consolidated interim financial statements. These estimates, assumptions and judgments are based on the circumstances assumed as at the reporting date and can have a significant effect on the presentation of the Group's financial position and financial performance. They are explained in detail in the consolidated financial statements of the Lenzing Group as at December 31, 2022 (Note 1).

Mandatory changes in accounting policies

The accounting standards requiring application by the Lenzing Group as of January 1, 2023 have no material effect on the presentation of the financial position and financial performance of the Lenzing Group as at June 30, 2023:

Standards/interpretations		Publication by the IASB	Mandatory application according to IASB for financial years from	Adopted by the EU as at 30/06/2023
IFRS 17	Insurance Contracts	18/05/2017	01/01/2023	yes
IFRS 17	Initial Application of IFRS 17 and IFRS 9 - Comparative Information	09/12/2021	01/01/2023	yes
IAS 1	Disclosure of Accounting Policies	12/02/2021	01/01/2023	yes
IAS 8	Definition of Accounting Estimates	12/02/2021	01/01/2023	yes
IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	07/05/2021	01/01/2023	yes
IAS 12	International Tax Reform - Pillar Two Model Rules	23/05/2023	01/01/2023[1]	no

1) Companies may apply the exception immediately, but disclosure requirements are required for annual periods commencing on or after 1 January 2023

Note 2. Consolidation

Scope of consolidation

The previously fully consolidated subsidiary Lenzing E-commerce (Shanghai) Co., Ltd., Shanghai, China, was liquidated and deconsolidated in March 2023.

In June 2023, the subsidiary Lenzing Germany GmbH, Berlin, Deutschland was founded and included in the scope of fully consolidated companies.

With effect from 1 June 2023, the Lenzing Group acquired a biomass power plant to supply the Heiligenkreuz production site. This strategic investment reduces dependence on fossil energy and helps to secure the Heiligenkreuz plant as an operational site. With the acquisition of the biomass power plant, the Lenzing Group is accelerating its transition to renewable energies and thereby also the achievement of its climate targets in accordance with its sustainability strategy.

Assets and liabilities at the aquisition date	EUR mn
Intangible assets and property, plant and equipment and right-of-use assets	18.1
Inventories	1.1
Liabilities	(1.5)
Identifiable assets less liabilities (net assets)	**17.7**

The goodwill of EUR 0.7 mn reflects the strategic benefits expected to derive from energy independence at the Heiligenkreuz production site and its contribution to the strategically anchored carbon reduction policy.

The output from the biomass power plant is utilized internally and for this reason does not generate any additional revenue for the Lenzing Group. Furthermore, the biomass power plant is fully integrated with the Heiligenkreuz operating production site, so it does not generate an independent result for the period.

The consideration transferred consists of the purchase price of EUR 17.7 mn, which is paid in cash in 2024, and a contingent consideration whose fair value as of the acquisition date amounted to EUR 0,9 mn.

Under the contingent consideration agreement, the Lenzing Group is obligated to pay a capped amount to the former owner of the biomass power plant depending on future changes in the average gas price (TTF ICE). No minimum amount was set, and the maximum amount was fixed at EUR 12.5 mn. The fair value of the contingent consideration was estimated by option valuation applying an arbitrage-free Monte Carlo model approach. In particular, the calculated fair value would increase (decrease) if the gas price (TTF ICE) were to increase (decrease).

In the income statement as of 30 June 2023, under the result from non-current and current financial assets and liabilities, an increase in the contingent consideration of EUR 0.3 mn was recognized, as the fair value of the contingent consideration increased by this amount. The contingent consideration is recognized on the statement of financial position under other liabilities.

Note 3. Segment report

The same principles have been applied in the presentation of the segment reporting as in the consolidated financial statements as of December 31, 2022.

Information on business segments EUR mn

01-06/2023	Division Fiber	Division Pulp	Others	Segment total	Recon-ciliation	Group
Revenue from external customers	927.5	321.0	1.8	1,250.2		1,250.2
Inter-segment revenue	7.8	210.2	0.0	218.0	(218.0)	0.0
Total revenue	935.3	531.2	1.8	1,468.3	(218.0)	1,250.2
EBITDA (segment result)	(45.2)	203.6	(22.5)	135.9	0.6	136.5
EBIT	(109.7)	122.8	(25.7)	(12.6)	0.6	(12.0)
EBITDA margin[1]	(4.8)%	38.3%	-	9.3%		10.9%
EBIT margin[2]	(11.7)%	23.1%	-	(0.9)%		(1.0)%

Information on business segments (previous year) EUR mn

01-06/2022	Division Fiber	Division Pulp	Others	Segment total	Recon-ciliation	Group
Revenue from external customers	1,117.6	173.7	2.3	1,293.6		1,293.6
Inter-segment revenue	0.0	227.8	0.0	227.8	(227.8)	0.0
Total revenue	1,117.6	401.5	2.3	1,521.4	(227.8)	1,293.6
EBITDA (segment result)	110.6	126.0	(49.9)	186.7	2.1	188.9
EBIT	51.7	97.1	(55.4)	93.5	2.1	95.6
EBITDA margin[1]	9.9%	31.4%	-	12.3%		14.6%
EBIT margin[2]	4.6%	24.2%	-	6.1%		7.4%

1) EBITDA margin = EBITDA (operating result before depreciation and amortization) in relation to total revenue (here: according to segment reporting).
2) EBIT margin = EBIT (operating result) in relation to total revenue (here: according to segment reporting).

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

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

Reconciliation of earnings before interest and tax (EBIT) to the earnings before interest, tax, depreciation and amortization (EBITDA) and to the earnings before tax (EBT) EUR mn

	01-06/2023	01-06/2022
Earnings before interest and tax (EBIT)	(12.0)	95.6
Amortization of intangible assets and depreciation of property, plant and equipment, right-of-use assets and depletion of biological assets	149.5	94.3
Income from the release of investment grants	(1.0)	(1.0)
Earnings before interest, tax, depreciation and amortization (EBITDA)	136.5	188.9
Segment amortization and depreciation	(149.5)	(94.3)
Consolidation	0.0	0.0
Income from the release of investment grants	1.0	1.0
Earnings before interest and tax (EBIT)	(12.0)	95.6
Financial result	(64.1)	4.4
Earnings before tax (EBT)	**(76.1)**	**100.0**

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 mn

	01-06/2023	01-06/2022
Wood-based cellulosic fibers	882.4	1,080.0
Co-products of fiber production	30.4	30.6
Mechanical and plant engineering, engineering services and others	14.6	7.1
Division Fiber	**927.5**	**1,117.6**
Pulp	247.2	83.5
Biorefinery-products and energy	60.1	76.0
Wood and other	13.6	14.2
Division Pulp	**321.0**	**173.7**
Others	1.8	2.3
Revenue as per consolidated income statement	**1,250.2**	**1,293.6**

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

Information on geographical regions

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

Revenue from external customers by geographic regions EUR mn

	01-06/2023	01-06/2022
Austria	53.6	59.8
Europe (excl. Austria, incl. Turkey)	310.5	409.5
Asia	763.7	701.6
America	115.7	114.5
Rest of the world	6.8	8.2
Revenue as per consolidated income statement	**1,250.2**	**1,293.6**

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

Note 4. Notes on the primary financial statements

Intangible assets and property, plant and equipment

Internally generated intangible assets (mainly process and product developments) of EUR 5.1 mn were capitalized in the first half of 2023 (01-06/2022: EUR 2.5 mn).

Goodwill shows the following changes during the interim reporting period:

Development of goodwill EUR mn

	2023	2022
As at 01/01	14.5	14.1
Additional amounts recognized from business combinations in the interim reporting period (see note 2)	0.7	0.0
Currency translation adjustment	0.2	0.1
As at 30/06	**15.4**	**14.2**

The investments (CAPEX) shown in the consolidated statement of cash flows mainly result from investments at the Lenzing site and the site in Indonesia. The high level of investments (CAPEX) in the comparable period of the previous year resulted mainly from the construction of the lyocell plant in Thailand and the construction of the dissolving wood pulp plant in Brazil. The lyocell plant and the dissolving wood pulp plant were started up in the 2022 financial year.

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

As of the reporting date for the interim consolidated financial statements, an analysis was performed to determine whether there were any indications of impairment or, in the case of impaired CGUs, whether any material changes had occurred compared with December 31, 2022. On the basis of an impairment indicator that was found to be existing, the individual CGUs' recoverable amounts were determined . As a result, no impairments were identified in the first half of 2023.

The carrying amounts of the intangible assets and property, plant and equipment of the CGU Fiber Site China impaired in previous years totaled EUR 80.8 mn at June 30, 2023 (December 31, 2022: EUR 59.2 mn). This amount includes accumulated impairment losses of EUR 7.1 mn (December 31, 2022: EUR 9.4 mn) from the previous impairment tests.

The carrying amount of the largest CGU Pulp Site Czech Republic as at June 30, 2023 is EUR 250.1 mn (December 31, 2022: EUR 239.7 mn). The goodwill which is included in the intangible assets as at June 30, 2023 is EUR 11.1 mn (December 31, 2022: EUR 11.0 mn). The recoverable amount showed generous coverage of the carrying amount. From the current perspective of management and based on the fair value less costs of disposal determined as at June 30, 2023, it is not likely that the valuation assumptions will change to such an extent that the carrying amount would not be covered.

No significant changes arose as of June 30, 2023 compared to the remarks concerning the sensitivities of the recoverable amount of the CGU Fiber Site China and of the CGU Pulp Site Czech Republic in the Lenzing Group's consolidated financial statements as of December 31, 2022 (see note 11).

Biological assets

Biological assets comprise standing trees of a plantation in Minas Gerais, Brazil, which are used as a raw material for pulp production. In accordance with IAS 41 (Agriculture), biological assets are presented at fair value in the consolidated statement of financial position. The plantation is recognized at level 3 of the fair value less estimated costs to sell at the harvest.

The measurement is based on a discounted cash flow model on the basis of sustainable forest management plans, industry benchmarks for wood prices and delivery costs and taking into account the growth potential. A wood price based on a multi-year average of industry benchmarks is used for the valuation. The annual harvest from the projected tree growth is multiplied by wood prices, and the forestry and harvesting costs are deducted. The fair value of the plantation is measured as the present value of the harvest from one growth cycle on the basis of the productive forest area, taking into account environmental restrictions and other reservations.

Standing timber less than one year old is considered an immature asset and is recognized at cost. When harvested, biological assets are transferred to the item inventories of the consolidated statement of financial position. Changes in the fair value of hedging instruments in relation to the foreign exchange risk are recognized in the income statement under cost of sales.

As at June 30, 2023, the plantation comprised approximately 41,495 hectares of eucalypt wood (December 31, 2022: 40,669 hectares) and 899 hectares of pine wood (December 31, 2022: 899 hectares). The wood is up to 14 years (December 31, 2022: 14 years) old. Wood amounting to EUR 11,974 thousand (December 31, 2022: EUR 5,540 thousand) is less than one year old and therefore considered an immature asset.

Biological assets developed as follows:

Development of biological assets EUR mn

	2023	2022
As at 01/01	127.7	95.8
Capitalized production costs	17.9	6.8
Depletion	(18.2)	(4.8)
Change in the fair value	49.1	6.2
Currency translation adjustment	(3.9)	9.6
Other changes	0.0	(1.2)
As at 30/06	**172.7**	**112.5**

Gains and losses from the change in the fair value of biological assets of EUR 42.5 mn (01-06/2022: EUR 3.1 mn) consist of the regular remeasurement of EUR 49.1 mn (01-06/2022: EUR 6.2 mn) and changes in the value of hedges related to the exchange rate of EUR minus 6.6 mn (01-06/2022: EUR minus 3.1 mn).

The following individual assumptions were used as at June 30, 2023:

Assumptions of level 3 input factors for biological assets

	30/06/2023	30/06/2022
Market price EUR/m³	15.87	9.43
Discount rate	8.00%	6.31%
Wood volume m³	11,172,008	11,767,962

A change in key input factors which cannot be observed on the market would have the following effects on the measurement of biological assets:

Sensitivity analysis of level 3 input factors for biological assets EUR mn

	30/06/2023		30/06/2022	
	Increase	Decrease	Increase	Decrease
Change in the market price (+/- 10%)	18.3	(18.3)	11.2	(11.2)
Discount rate (+/- 1%)	(0.9)	1.0	(0.8)	0.9
Wood volume (+/- 5%)	9.2	(9.2)	5.7	(5.7)

To determine the sensitivities, fair value was determined again taking into account the changed input factors.

Right-of-use assets

In the first half of 2023, additions to right-of-use assets amounted to EUR 70.2 mn (01-06/2022: EUR 11.8 mn). Of this amount, EUR 69.3 mn (01-06/2022: EUR 4.7 mn) relate to the index increase for land use rights.

Trade Receivables

As of June 30, 2023, the factoring agreements have a maximum utilizable nominal volume totaling EUR 80.0 mn (December 31, 2022: EUR 60.0 mn). As of June 30, 2023 due to factoring agreements, trade receivables in the amount of EUR 76.6 mn (December 31, 2022: EUR 57.1 mn) were sold and derecognized from the Lenzing Group's consolidated statement of financial position. The unadvanced amount is recognized as other current assets in the amount of EUR 7.7 mn as of June 30, 2023 (December 31, 2022: EUR 5.7 mn).

In the interim reporting period, bad debt provisions for trade receivables in the amount of EUR 1.6 mn were released through profit or loss (01-06/2022: EUR 1.7 mn were released through profit or loss).

Other assets

The EUR 52.4 million increase in other current assets is mainly due to the increase of EUR 25.7 mn of emission certificates and higher fair values of derivatives with a positive market value of EUR 19.8 mn.

Inventories and provisions for onerous procurement contracts

In the interim reporting period, valuation allowances applied to the net realizable value of inventories decreased by EUR 43.0 mn (01-06/2022: increased by EUR 4.2 mn). The provision for onerous procurement contracts for raw materials totaled EUR 5.1 mn at June 30, 2023 (December 31, 2022: EUR 23.3 mn).

Equity

The share capital and the number of zero par value shares did not change in the interim reporting period. No shares were repurchased. The Managing Board did not utilize the authorizations in place on or up to June 30, 2023 to issue convertible bonds or repurchase treasury shares during the interim reporting period. The Managing Board of Lenzing AG utilized the existing authorisation to increase the share capital and Lenzing AG carried out a capital increase in July 2023, after the reporting date of the interim consolidated financial statements (see note 10).

The Annual General Meeting on April 19, 2023 authorized the Management Board – while at the same time canceling the resolutions regarding this matter of the Annual General Meeting of April 12, 2018 – 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.

In addition, a resolution of the Annual General Meeting on April 19, 2023 authorized the Management Board – while at the same time canceling the resolutions regarding this matter of the Annual General Meeting of April 12, 2018 – to issue, subject to the approval of the Supervisory Board, convertible bonds by April 19, 2028 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 dividend for the shareholders of Lenzing AG is as follows:

Dividends of Lenzing AG resolved and paid	Total	Number of shares	Dividend per share
	EUR mn		EUR
Dividend for the financial year 2022 resolved at the Annual General Meeting on April 23, 2023	0.0	26,550,000	0.00
Dividend for the financial year 2021 resolved at the Annual General Meeting on April 26, 2022 (payment as of May 3, 2022)	115.5	26,550,000	4.35

Deferred and current taxes

Income tax expense for the condensed interim consolidated financial statements is determined based on the best estimate of the average annual income tax rate expected for the full financial year in accordance with IAS 34. In addition, one-off effects which relate to the reporting date as at June 30, 2023 are taken into account, in particular estimates regarding the impairment of loss carryforwards, uncertain tax positions as well as temporary differences arising due to market measurements as at the reporting date. The tax income of EUR 10.3 mn recognized in relation to earnings before tax leads to a tax rate of 13.5 percent, thereby remaining below the expected 24 percent tax rate. In the same period of the previous year, the effective income tax expense of EUR 27.7 mn in relation to earnings before tax led to a tax rate of 27.7 percent, which was higher than the expected 25 percent tax rate. As in the same period of the previous year, reconciliation items arising from value adjustments of tax assets (especially from non-capitalized losses) have a tax-increasing effect. Non-deductible withholding taxes also increase the tax expense. As in the same period of the previous year, tax-reducing effects included reconciliation items resulting from the translation of tax items from the local to the functional currency (especially Brazil), as well as the planned distribution to hybrid capital holders, which is tax-deductible. In 2022, the adjustment of deferred taxes in Austria to the tax rates approved in the 2022 tax reform resulted in a tax reduction.

Trade payables

Reverse factoring agreements with suppliers of the Lenzing Group are in place as at June 30, 2023. Trade payables totaling 95.4 mn (December 31, 2022: EUR 116.4 mn) were affected by these agreements.

Note 5. Capital risk management

All capital requirements were satisfied in the interim reporting period. Unused credit facilities in the amount of EUR 237.2 mn were available for possible future financing requirements as at June 30, 2023 (December 31, 2022: EUR 232.3 mn).

The financing agreements for the pulp plant in Brazil contain negative financial covenants for the Lenzing Group and for LD Celulose S.A. Among other items these relate to the ratio of adjusted net debt to EBITDA and other financial criteria, which were last amended in June 2023. To ensure that these restrictions do not limit the Lenzing Group, especially for potential refinancing, measures have been and will continue to be taken to reduce the gearing ratio and to improve liquidity (see note 10).

Note 6. Disclosures on financial instruments

The following table shows the carrying amounts and fair values of the financial assets and financial liabilities for each class and each IFRS 9 (Financial Instruments) category and reconciles this information to the appropriate line items on the statement of financial position. “Other receivables” (non-current and current) and “other liabilities” (non-current and current) as reported on the statement of financial position include financial instruments as well as non-financial assets and liabilities. Therefore the “no financial instrument” column allows for a complete reconciliation with the line items on the statement of financial position. This “no financial instrument” column also contains lease liabilities since they represent other financial liabilities which cannot be allocated to any IFRS 9 measurement category.

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

EUR mn

Financial assets as at 30/06/2023	Carrying amount: At amortized cost	Carrying amount: At fair value through profit or loss	Carrying amount: At fair value through other comprehensive income – Equity instruments	Carrying amount: At fair value through other comprehensive income – Cash flow hedges	Carrying amount: No financial instrument	Carrying amount: Total	Fair value: Fair value	Fair value: Fair value hierarchy
Originated loans	10.1	0.8				**10.9**	10.9	[1]
Non-current securities		6.2	16.8			**23.0**	23.0	Level 1
Other equity investments			0.0			**0.0**	0.0	[1]
Current securities			10.7			**10.7**	10.7	Level 1
Financal assets (current and non-current)	**10.1**	**7.0**	**27.5**	**0.0**	**0.0**	**44.6**	**44.6**	
Trade receivables	**318.0**	**0.0**	**0.0**	**0.0**	**0.0**	**318.0**	**318.0**	[1]
Derivatives with a positive fair value (cash flow hedges)				62.9		**62.9**	62.9	Level 2
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)		10.6				**10.6**	10.6	Level 2
Other	26.7	3.7			269.9	**300.4**	30.5	Level 3
Other assets (current and non-current)	**26.7**	**14.3**	**0.0**	**62.9**	**269.9**	**373.9**	**104.0**	
Cash and cash equivalents	**333.2**	**0.0**	**0.0**	**0.0**	**0.0**	**333.2**	**333.2**	[1]
Total	**688.0**	**21.4**	**27.5**	**62.9**	**269.9**	**1,069.7**	**799.8**	

Financial liabilities as at 30/06/2023	Carrying amount: At amortized cost	Carrying amount: At fair value through profit or loss	Carrying amount: At fair value through other comprehensive income – Cash flow hedges/Fair value hedges	Carrying amount: At fair value through other comprehensive income – Retained earnings	Carrying amount: No financial instrument	Carrying amount: Total	Fair value: Fair value	Fair value: Fair value hierarchy
Private placements	568.3					**568.3**	543.3	Level 3
Liabilities to banks	1,687.5					**1,687.5**	1,662.7	Level 3
Liabilities to other lenders	38.6					**38.6**	33.7	Level 3
Lease liabilities					141.5	**141.5**		
Financial liabilities	**2,294.5**	**0.0**	**0.0**	**0.0**	**141.5**	**2,435.9**	**2,239.7**	
Trade payables	**363.4**	**0.0**	**0.0**	**0.0**	**0.0**	**363.4**	**363.4**	[1]
Provisions (current)	**0.0**	**0.0**	**0.0**	**0.0**	**37.8**	**37.8**		
Puttable non-controlling interests	**0.0**	**0.0**	**0.0**	**284.8**	**0.0**	**284.8**	**284.8**	Level 3
Derivatives with a negative fair value (cash flow hedges)			9.0			**9.0**	9.0	Level 2
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)		0.0				**0.0**	0.0	Level 2
Contingent consideration		1.3	0.0			**1.3**	1.3	Level 2
Other	78.0				73.8	**151.8**	78.0	[1]
Other liabilities (current and non-current)	**78.0**	**1.3**	**9.0**	**0.0**	**73.8**	**162.0**	**88.3**	
Total	**2,735.9**	**1.3**	**9.0**	**284.8**	**253.0**	**3,283.9**	**2,976.1**	

1) The carrying amount approximates fair value.

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

Financial assets as at 31/12/2022	Carrying amount: At amortized cost	Carrying amount: At fair value through profit or loss	Carrying amount: At fair value through other comprehensive income – Equity instruments	Carrying amount: At fair value through other comprehensive income – Cash flow hedges	Carrying amount: No financial instrument	Carrying amount: Total	Fair value: Fair value	Fair value: Fair value hierarchy
Originated loans	8.4					**8.4**	8.4	[1]
Non-current securities		6.2	14.4			**20.6**	20.6	Level 1
Other equity investments			0.0			**0.0**	0.0	[1]
Current securities			12.4			**12.4**	12.4	Level 1
Financal assets (current and non-current)	**8.4**	**6.2**	**26.8**	**0.0**	**0.0**	**41.4**	**41.4**	
Trade receivables	**293.6**	**0.0**	**0.0**	**0.0**	**0.0**	**293.6**	**293.6**	[1]
Derivatives with a positive fair value (cash flow hedges)				55.5		**55.5**	55.5	Level 2
Derivatives with a positive fair value (cash flow hedges with the underlying already recognized in profit or loss)		1.7				**1.7**	1.7	Level 2
Other	32.3	4.1			230.4	**266.7**	36.4	Level 3
Other assets (current and non-current)	**32.3**	**5.8**	**0.0**	**55.5**	**230.4**	**323.9**	**93.5**	
Cash and cash equivalents	**446.9**	**0.0**	**0.0**	**0.0**	**0.0**	**446.9**	**446.9**	[1]
Total	**781.2**	**12.0**	**26.8**	**55.5**	**230.4**	**1,105.7**	**875.4**	

Financial liabilities as at 31/12/2022	Carrying amount: At amortized cost	Carrying amount: At fair value through profit or loss	Carrying amount: At fair value through other comprehensive income – Cash flow hedges/Fair value hedges	Carrying amount: At fair value through other comprehensive income – Retained earnings	Carrying amount: No financial instrument	Carrying amount: Total	Fair value: Fair value	Fair value: Fair value hierarchy
Private placements	569.7					**569.7**	542.9	Level 3
Liabilities to banks	1,640.1					**1,640.1**	1,640.7	Level 3
Liabilities to other lenders	42.8					**42.8**	37.6	Level 3
Lease liabilities					69.6	**69.6**		
Financial liabilities	**2,252.6**	**0.0**	**0.0**	**0.0**	**69.6**	**2,322.2**	**2,221.3**	
Trade payables	**435.4**	**0.0**	**0.0**	**0.0**	**0.0**	**435.4**	**435.4**	[1]
Provisions (current)	**0.0**	**0.0**	**0.0**	**0.0**	**66.3**	**66.3**		
Puttable non-controlling interests	**0.0**	**0.0**	**0.0**	**266.1**	**0.0**	**266.1**	**266.1**	Level 3
Derivatives with a negative fair value (cash flow hedges)			7.6			**7.6**	7.6	Level 2
Derivatives with a negative fair value (cash flow hedges with the underlying already recognized in profit or loss)		1.4				**1.4**	1.4	Level 2
Other	63.4				**64.3**	**127.6**	63.4	[1]
Other liabilities (current and non-current)	**63.4**	**1.4**	**7.6**	**0.0**	**64.3**	**136.6**	**72.3**	
Total	**2,751.4**	**1.4**	**7.6**	**266.1**	**200.2**	**3,226.7**	**2,995.1**	

1) The carrying amount approximates fair value.

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

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 shares is derived from the current stock exchange prices. These securities are assigned to the category “at fair value through other comprehensive income”.

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

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

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

Development of level 3 fair values of other financial assets EUR mn

	2023	2022
As at 01/01	4.1	4.1
Gain/loss included in financial result	(0.4)	0.0
As at 30/06	**3.7**	**4.1**

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 EUR mn

	Financial result			
	30/06/2023		30/06/2022	
Other financial assets	Increase	Decrease	Increase	Decrease
EBITDA (+/- 5%)	0.1	(0.1)	0.1	(0.2)
Discount rate (WACC) after tax (+/- 1%)	(0.7)	0.9	(0.7)	0.9
Repayment 2 years earlier	0.6	n/a	0.4	n/a

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

Puttable non-controlling interests

The Dexco-Group has a put option and has the right to sell its shares in LD Celulose S.A., Indianópolis, Brazil, if a change of control occurs regarding the owner of the Lenzing Group (change of control clause). This obligation is recognized under liabilities from puttable non-controlling interests. Puttable non-controlling interests are allocated to the category “at fair value through other comprehensive income”. The fair value of these puttable non-controlling interests is determined based on the planned or projected cash flows less cost of disposal and net debt at the measurement date. The budget approved by the Management and Supervisory Boards and the medium-term plans are the starting point for the cash flow projections. After the detailed planning period of five years, a 25-year return based on a sustainable EBITDA margin is expected based on last year’s assumptions. The planning period for the calculation of fair value is contractually limited to a maximum of 30 years. Cash flows are discounted to their present value with a discounted cash flow method. The applied discount rate is calculated on an individual basis using the capital asset pricing model (CAPM) and represents a composite figure (weighted average cost of capital – WACC) that combines the average interest rate for debt and the anticipated return on equity employed. An after-tax WACC of 8.2 percent (December 31, 2022: 8.8 percent) was used at the measurement date. Fair value measurement is classified in full as level 3 of the fair value hierarchy because key input factors (in particular, cash flows) cannot be observed on the market.

Development of level 3 fair values of puttable non-controlling interest EUR mn

	2023	2022
As at 01/01	266.1	234.4
Measurement of puttable non-controlling interest recognized directly in equity	18.7	64.5
As at 30/06	**284.8**	**298.9**

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

Sensitivity analysis of level 3 input factors for puttable non-controlling interest EUR mn

	Measurement result offset against retained earnings			
	30/06/2023		30/06/2022	
Puttable non-controlling interests	**Increase**	**Decrease**	**Increase**	**Decrease**
EBITDA (+/- 1%)	9.1	(9.1)	9.1	(9.1)
Discount rate (WACC) after tax (+/- 0.25%)	(17.4)	18.0	(16.3)	16.9

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 fair value of the contingent consideration is determined by option valuation using an arbitrage-free Monte Carlo model approach. The main input here is the gas price (TTF ICE). This liability is allocated to the "at fair value through profit or loss" category.

Derivative financial instruments and hedges

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.

In addition to physical purchase contracts, derivative financial instruments are utilized within the Lenzing Group in order to hedge against gas price risks. In the first half of 2023, the Lenzing Group expanded its hedging strategy. These hedges serve to offset the variability of cash flows from future gas price payments resulting from the hedged item. The nominal amounts of cash flow hedge derivatives as at June 30, 2023 amount to 594,424 MWH (December 31, 2022: 160,850 MWH). The positive fair value of the hedging derivatives as at June 30, 2023 amounts to EUR 0.2 mn (December 31, 2022: EUR 0.0 mn) and negative fair value of the hedging derivatives as at June 30, 2023 amounts to EUR minus 8.8 mn (December 31, 2022: EUR minus 5.5 mn). The change in fair value used to calculate the ineffectiveness amounts to EUR minus 8.6 mn (December 31, 2022: EUR minus 5.5 mn). The ineffective portion as June 30, 2023 amounts to EUR 0.0 mn (December 31, 2022: EUR 0.0 mn). The average hedge rate over the term is EUR 65.02 (December 31, 2022: EUR 97.17). The hedge expires in March 2025 (December 31, 2022: December 2023).

Compared with the information of the latest Annual Financial Report as at December 31, 2022, there were no changes that had a material impact on the half-year financial statements with regard to hedging currency risks arising from the operating business, hedging cross-currency interest rate risks arising from private placements in foreign currencies and hedging interest rate risks arising from loans taken out with variable interest rates. A detailed explanation is provided in the Annual Financial Report of the Lenzing Group as at December 31, 2022 (see note 36 there).

The Group completed the transition to alternative reference rates (IBOR reform) during the interim reporting period. For those financial instruments that were linked to the IBOR reference rate USD-LIBOR as of 31 December 2022, the transition to the alternative reference rate, the Secured Overnight Financing Rate (SOFR), was completed in the interim reporting period.

Disclosures on Related Parties and Executive Bodies

Note 7. Related party disclosures

Contractual obligations resulted in the payment of tax allocations totaling EUR 0.2 mn to the head of the tax group in the interim reporting period (01-06/2022: EUR 5.3 mn).

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

Relationships with companies accounted for using the equity method and their material subsidiaries **EUR mn**

	01-06/2023	01-06/2022
Goods and services provided	29.2	37.2
Goods and services received	0.8	1.3
	30/06/2023	**31/12/2022**
Receivables	14.5	11.9
Liabilities	0.1	2.3

Note 8. Executive bodies

Mr. Nico Reiner was appointed to serve as a Member of the Managing Board (Chief Financial Officer) with effect as of January 1, 2023.

At the Annual General Meeting on 19 April 2023, Ms. Nicole van der Elst Desai and Mr. Gerhard Schwartz were newly elected to the Supervisory Board. Patrick Prügger stepped down from the Supervisory Board at his own request. Furthermore, at the constitutive meeting of the Supervisory Board, Ms. Bonita Haag and Mr. Stephan Gruber were delegated to the Supervisory Board by the Works Council in place of Ms. Daniela Födinger and Mr. Herbert Brauneis.

Otherwise the composition of the Managing Board and the Supervisory Board has not changed in comparison with December 31, 2022.

Other disclosures

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

The Lenzing Group has entered into contingent liabilities of EUR 13.0 mn (December 31, 2022: EUR 10.3 mn), above all to secure claims related to the sale of certain equity investments and claims by suppliers, for possible default of payment on sold receivables and for claims by third parties outside the Group. Less important contingencies involve granted retentions. The reported amounts represent the maximum payment obligation from the viewpoint of the Lenzing Group, and there is only a limited potential for recoveries.

The Lenzing Group provides committed credit lines of EUR 1.9 mn (December 31, 2022: EUR 3.1 mn) to third parties. These credit lines were not in use as at June 30, 2023.

The obligations from outstanding orders for intangible assets and property, plant and equipment amounted to EUR 92.0 mn as at June 30, 2023 (December 31, 2022: EUR 185.7 mn). The Lenzing Group has long-term purchase obligations related to raw material supplies, in particular for wood, chemicals and energy.

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

With effect from July 2023, Lenzing AG carried out a capital increase that had been approved by the Annual General Meeting on 19 April 2023. A total of 12,068,180 new shares were issued. The share capital was fully paid in. The share capital and the capital reserves increased by around EUR 391.9 mn. The transaction costs, reduced by the attributable income taxes, were directly offset against the increase in the capital reserves.

The Lenzing Group is not aware of any significant events occurring after the reporting date on June 30, 2023 which would have resulted in a different presentation of its financial position and financial performance.

Lenzing, July 31, 2023
Lenzing Aktiengesellschaft

The Managing Board

Stephan Sielaff
Chief Executive Officer

Nico Reiner
Chief Financial Officer

Robert van de Kerkhof
Chief Sustainability Officer

Christian Skilich
Chief Pulp Officer

Declaration of the Managing Board

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

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

Lenzing, July 31, 2023
Lenzing Aktiengesellschaft

The Managing Board

Stephan Sielaff
Chief Executive Officer

Nico Reiner
Chief Financial Officer

Robert van de Kerkhof
Chief Sustainability Officer

Christian Skilich
Chief Pulp Officer

Report on the Review of the condensed Interim Consolidated Financial Statements

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of Lenzing Aktiengesellschaft, Lenzing, for the period from January 1, 2023 to June 30, 2023. These condensed interim consolidated financial statements comprise the consolidated statement of financial position as of June 30, 2023 and the consolidated income statement/consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and consolidated statement of changes in equity for the period from January 1, 2023 to June 30, 2023 and the condensed notes, summarizing the significant accounting policies and other explanatory notes.

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

Our responsibility is to express a conclusion on these condensed consolidated interim financial statements. Our liability towards the Company and towards third parties is limited in accordance with § 275 par. 2 of the Austrian Commercial Code (UGB).

Scope of review

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

Conclusion

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

Statement on the consolidated interim management report for the 6 month period ended June 30, 2023 and on management's statement in accordance with § 125 Austrian Stock Exchange Act (BörseG)

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

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

Linz, July 31, 2023

KPMG Austria GmbH

Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Alexander Gall

Austrian Chartered Accountant

Note: The condensed interim consolidated financial statements together with our review report may be published or transmitted only as agreed by us. Any versions deviating from the one agreed by us (e.g. condensed version or translation into another language) are subject to § 281 par. 2 UGB. This report is a translation of the original report in German, which is solely valid.

Financial Glossary

Adjusted equity
Equity including non-current and current government grants less the proportional share of deferred taxes on these government grants.

Adjusted equity ratio
Ratio of adjusted equity to total assets in percent.

CAPEX
Capital expenditures; i.e. acquisition of intangible assets, property, plant and equipment and biological assets as per statement of cash flows.

Earnings per share
The share of net profit/loss for the year (/the period) attributable to the shareholders of Lenzing AG divided by the weighted average number of issued shares, calculated according to IFRS (IAS 33 earnings per share).

EBIT (earnings before interest and tax)
Earnings before interest and tax, or operating result; the precise derivation can be found in the consolidated income statement.

EBIT margin
EBIT as a percent of revenue; represents the return on sales (ROS).

EBITDA (earnings before interest, tax, depreciation and amortization)
Operating result before interest, tax, depreciation on property, plant and equipment, right-of-use assets and depletion of biological assets and amortization of intangible assets and before income from the release of investment grants.

EBITDA margin
EBITDA as a percent of revenue.

EBT (earnings before tax)
Profit/loss for the year (/the period) before income tax expense. The precise derivation can be found in the consolidated income statement.

Equity
The equity item aggregates the equity instruments as defined by IFRS. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. This represents the funds provided to the entity by its owners.

Free cash flow
Cash flow from operating activities less cash flow from investing activities and net cash inflows from the sale and disposal of subsidiaries and other business areas plus acquisition of financial assets and investments accounted for using the equity method less proceeds from the sale/repayment of financial assets and the sale of investments accounted for using the equity method. Free cash flow 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 lease liabilities less liquid assets.

Net gearing
Net financial debt as a percent of adjusted equity.

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

Post-employment benefits
Provisions for pensions and severance payments.

Total assets
Total of non-current and current assets or the total of equity and non-current and current liabilities. The precise derivation can be found in the consolidated statement of financial position.

Trading working capital
Inventories plus trade receivables less trade payables.

Trading working capital to annualized group revenue
Trading working capital as a percent of the latest reported quarterly group revenue x 4.

Working capital

Net current assets. Inventories plus trade receivables and other non-current and current assets less current provisions, trade payables and other non-current and current liabilities

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

This condensed interim group report also contains forward-looking statements based on current assessment and assumptions made by Lenzing Group to the best of its knowledge. Statements using the words “should”, “may”, “will”, “expected”, “intended”, “assume”, “suppose”, “estimate”, “plan”, “anticipate”, “is of the opinion”, “to my knowledge”, “in my estimation” or similar formulations indicate such forward-looking statements. The forecasts relating to the future development of the Lenzing Group are estimates based on the information available at the time of this condensed interim group report going to print.

If the assumptions on which the forecasts are based do not occur or risks arise at a level that was not anticipated, actual results may deviate from forecasts.

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