

EANS-Adhoc: Lenzing AG / First Half-Year Results 2013 as Expected

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Mid Year Results/6-month report
21.08.2013

- New record fiber sales volumes against the backdrop of declining prices
- Strategy adjusted to market conditions
- Outlook revised to take account of successful sale of Lenzing Plastics

The Lenzing Group was not immune to the continuous downward price development on the marketplace in the first half-year 2013. Nevertheless, against the backdrop of declining sales, Lenzing generated earnings in line with expectations but considerably below the first half of 2012.

Consolidated sales declined by 6.8% in the first half of 2013 to EUR 989.9 mn, down from EUR 1,061.8 mn in the previous year. The significantly lower average fiber selling prices compared to the first half of 2012 could not be compensated by the higher fiber shipment volumes. Furthermore, there was a loss of external sales of about EUR 42.5 mn at the Paskov pulp plant compared to the first half of 2012. The comparability of the performance indicators in the first half of 2013 with those in the prior-year period is limited due to Lenzing's sale of its Business Unit Plastics (Lenzing Plastics).

Consolidated earnings before interest, tax, depreciation and amortization^[1] (EBITDA) amounted to EUR 162.0 mn, down 16.3% from EUR 193.6 mn in the first half of 2012. The EBITDA margin was 16.4% in contrast to the prior-year figure of 18.2%. Earnings before interest and tax (EBIT) in the first half-year totaled EUR 103.0 mn, a decrease of 27.0% from the previous year's EBIT of EUR 141.1 mn. This corresponded to an EBIT margin of 10.4% in the first half of 2013 (H1 2012: 13.3%). The disposal of the Business Unit Plastics by the Lenzing Group resulted in a cash inflow of EUR 61.7 mn and a gain on disposal before taxes (affecting EBITDA and EBIT) of EUR 25.9 mn at the half-year reporting date.

In the first half-year 2013, the market was characterized by ongoing high inventories of cotton and surplus production capacities for viscose fibers in China, the most important sales market, and thus globally declining prices for man-made cellulose fibers. The average fiber selling prices of the Lenzing Group totaled EUR 1.76/kg (H1 2012: EUR 2.03/kg).

"We have reacted and already initiated a cost optimization program at the beginning of the year. In addition, we have adjusted our short- and medium-term strategy to the changed market environment. We will more strongly focus on our specialty fibers TENCEL® and Modal in the future. Viscose fibers will remain an important pillar of our business, but further expansion projects for viscose fibers will only be implemented if correspondingly high profitability is achieved" reports Lenzing's Chief Executive Officer Peter Untersperger. Current large-scale strategic investments such as the new TENCEL® production plant located at the Lenzing site will continue as planned. Moreover, Lenzing will rapidly press ahead with scaling TENCEL® to ensure more widespread use.

Double-digit cost savings

"The excellENZ program launched at the beginning of 2013 is bearing fruit. We succeeded in generating savings of EUR 16 mn in the first half-year", adds Lenzing's Chief Financial Officer Thomas G. Winkler. These cost reductions were primarily achieved in purchasing as well as maintenance investments.

Investments in intangible assets and property, plant and equipment totaled EUR

134.4 mn[2] in the first half of 2013, compared to EUR 130.0 mn in the first six months of 2012. The focal point of the new investments was almost exclusively the construction of the new TENCEL® production plant at the Lenzing site. According to CFO Winkler, the priority is on optimal cash management. The level of investments is not expected to rise in the second half of the year. Accordingly, CAPEX for the entire year 2013 will amount to approximately EUR 260 mn (2012: EUR 346.2 mn). "In the future Lenzing will only spend as much as we earn", Winkler says. And this is also a consequence of the excellENZ program.

The sale of Lenzing's Business Unit Plastics led to a 2.9% decrease in the balance sheet total to EUR 2,556.5 mn. Adjusted Group equity[3] as of the end of June 2013 remained largely unchanged at EUR 1,154.8 mn compared to the level of EUR 1,153.1 mn at the end of 2012. Net financial debt totaled EUR 424.4 mn in the middle of 2012 (December 31, 2012: EUR 346.3 mn). This still corresponded to a moderate 36.8% ratio of net financial debt to equity (December 31, 2012: 30.0%), hardly a change from the first quarter of the year.

Segments Fibers and Engineering

Lenzing successfully increased fiber production and shipment volumes in its core Segment Fibers in the first half of 2013, and also reported ongoing attractive price premiums for Modal and TENCEL®. Lenzing achieved a new record level of fiber sales, which amounted to 438,000 tons in the first half of 2013. However, the price development for viscose fibers was less favorable than previously expected.

The Business Unit Textile Fibers carried out a large number of measures in the first half-year 2013 which were designed to promote the sales of the specialty fibers Lenzing Modal® and TENCEL®. The comparatively high cotton price in China, the most important sales market for Modal, also helped support demand for Lenzing Modal® as a fiber blend.

The global nonwovens fiber market developed robustly in the first half of 2013 against the backdrop of very good volume demand. However, the declining textile fiber selling prices also led to some price pressure in the nonwovens sector, even if this was to a moderate extent.

"Our specialty strategy and quality leadership proved their value in this difficult market environment. The volume demand for our fibers continues unabatedly. Lenzing's inventories are low, even if the achievable selling prices for standard viscose fibers are currently disappointing", explains Friedrich Weninger, Member of Lenzing's Management Board with responsibility for the fiber business. "Modal, TENCEL® and all nonwoven products made a significant contribution to stabilizing our business in the first half-year. Furthermore, we moved ahead with increasing our capacities to produce our own pulp thanks to the conversion of the Paskov plant from paper pulp to dissolving pulp. The targeted monthly production level could already be achieved six months ahead of schedule".

The Segment Engineering developed well, with new contract orders somewhat below the comparable prior-year level.

Sale of Business Unit Plastics

The disposal of the Business Unit Plastics (Lenzing Plastics GmbH) was finalized effective June 27, 2013. The buyer is an Austrian consortium led by Invest AG, the investment company of the Raiffeisen Banking Group Upper Austria. The sale is the result of Lenzing's strategic focus on its core business of manufacturing man-made cellulose fibers.

Outlook for the global fiber market

The state of the global economy will not substantially change in the second half of 2013 compared to the first half of the year. This is likely to lead to a largely stable volume demand for the world's fiber industry in relation to the first half-year. However, the high ongoing cotton inventories will prevent any further increase of cotton prices and thus of all other fibers. Excess production capacities in the man-made cellulose fiber industry are expected to continue although expansion projects planned by competitors have already been delayed. This situation is accompanied by lower prices for dissolving pulp, the

most important raw material for fiber production. Accordingly, a further price adjustment for viscose fibers cannot be excluded in the coming months.

Outlook Lenzing Group

In the light of the current market environment, Lenzing is adjusting its short-term and medium-term corporate strategy to market conditions prevailing at the present time. Due to the fact that Lenzing continues to anticipate a dampened level of fiber selling prices in the upcoming quarterly periods, short- and medium-term investments will be adjusted in accordance with income. Ongoing large-scale investments such as the construction of the new TENCEL® production facility at the Lenzing site will not be affected by this development. However, major new investments will first begin when a minimum return on the capital employed is achieved.

Lenzing is revising its performance indicators for the entire year 2013 as a result of the sale of the Business Unit Plastics as of the end of June 2013. Accordingly, due to the deconsolidation of sales generated by Lenzing Plastics as of the middle of 2013 as well as the expected average fiber selling price of EUR 1.70/kg in the second half of the year (H1 2013: EUR 1.76/kg), consolidated sales of the Lenzing Group in 2013 are predicted to total approximately EUR 2.0 bn for 2013 as a whole (guidance before the sale of Lenzing Plastics: EUR 2.15 bn - EUR 2.25 bn). Based on the full availability of production capacities, fiber shipment volumes will likely amount to about 910,000 tons for the entire year 2013 (original guidance: 920,000 tons), which comprises an impressive increase of more than 12% compared to the prior-year level of 810,000 tons. In the second half of 2013, Lenzing will implement intensive marketing and sales efforts to promote its specialty fibers Lenzing Modal® and TENCEL® in order to stabilize the business.

From today's perspective, EBITDA of EUR 280 mn is expected for the entire year 2013 (last guidance excl. the sale of Lenzing Plastics: EUR 260 mn - EUR 290 mn). EBIT is likely to reach a level of EUR 160 mn (previous guidance excl. the sale of Lenzing Plastics: EUR 140 mn - EUR 170 mn).

For Lenzing, the ongoing volume demand for its fibers and the stable world market price for cotton is a clear indication that the long-term growth perspectives for the man-made cellulose fiber industry remain intact. However, an upward movement in selling prices is first expected when volume growth manages to create a more balanced market situation compared to the current excess production capacities in the fiber and pulp industries. Until that time, Lenzing will adjust its investment policy to revenue and counteract market developments on the basis of further internal optimization measures. Lenzing will place additional emphasis on enhancing innovation and intensifying its marketing and sales efforts on behalf of the specialty fibers Lenzing Modal® and TENCEL® as well as nonwovens.

Key Group indicators

(IFRS) in EUR mn	1-6/2013	1-6/2012
Consolidated sales	989.9	1.061.8
EBITDA1	162.0	193.6
EBITDA-margin1 in %	16.4	18.2
EBIT1	103.0	141.1
EBIT margin1 in %	10.4	13.3
Profit for the period1	65.3	100.1
CAPEX (Incl. Plastics)	134.4	130.0

	June 30, 2013	Dec. 31, 2012
Adjusted equity ratio2 in %	45.2	43.8
Number of employees at period-end	6,744	7,033

- 1) After restructuring
- 2) Equity incl. government grants less prop. deferred taxes

Segment reporting³

(EUR mn)	1-6/2013	1-6/2012
Segment Fibers		
Sales	893.0	955.9
EBITDA	125.4	182.9
Segment Engineering		
Sales	66.0	58.3
EBITDA	4.3	4.1
Segment Other		
Sales	27.6	28.1
EBITDA	4.0	1.7

3) The disposal of the Business Unit Plastics resulted in a restructuring of the Lenzing Group's segment reporting. Lenzing will now report on its Segment "Fibers", which encompasses the internal business units Textile Fibers, Nonwoven Fibers, Pulp and Energy. The activities of Lenzing Technik are assigned to the Segment "Engineering". The Segment "Discontinued Operations" includes the disposed Business Unit Plastics as well as European Precursor (EPG), the terminated joint venture with SGL Carbon and Kelheim Fibres. The Segment "Other" mainly encompasses the activities of Dolan GmbH/Kelheim (synthetic fibers, part of the Segment Plastics Products up until now) as well as the training center Bildungszentrum Lenzing (BZL)

[1] All earnings figures are provided after restructuring, except where explicitly stated otherwise

[2] Incl. EUR 2.7 mn of Business Unit Plastics

[3] Including investment grants less prop. deferred taxes

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