CHAPTER
2/4

Management Report 2021

Content

General Market Environment

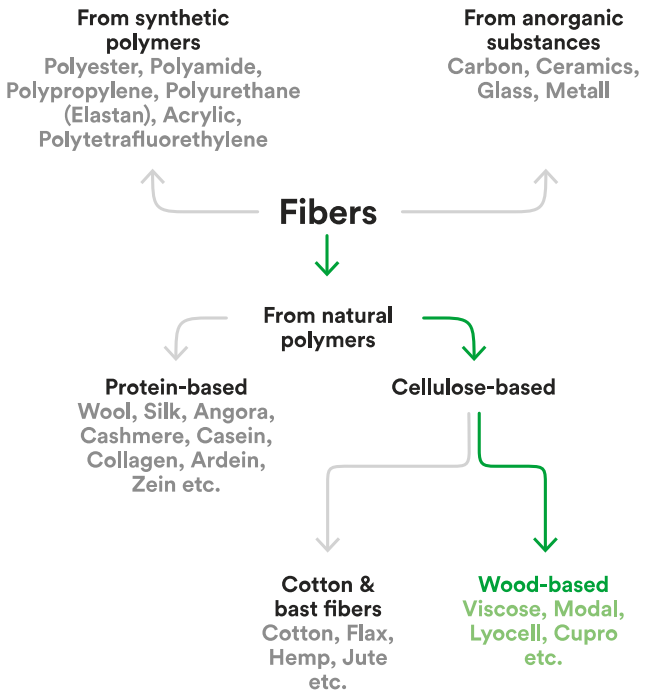
Global economy[1]

In 2021, the global economy recovered from the previous year's recession, despite the ongoing COVID-19 pandemic. The International Monetary Fund estimates that growth amounted to 5.9 percent in 2021 (-3.1 % in 2020). The economy in industrialized nations is expected to have expanded by 5 percent (2020: -4.5 %). At 5.6 percent (2020: -3.4 %), growth in the USA was higher than that of the Eurozone at 5.2 percent (2020: -6.4 %). As in the previous year, China recorded above-average growth of 8.1 percent (2020: 2.3 %).

Despite the economic recovery, 2021 was characterized by numerous economic challenges: supply failed to keep pace with demand in many areas of the global economy. In addition to further reasons, including structural reasons, this led to significant price increases, particularly in the energy area, and to problems in global supply chains.

For 2022, the IMF forecasts growth of 4.4 percent. However, a continuation of the economic recovery remains exposed to risks, especially the further course of the pandemic and its implications for individual economic sectors.

Fibers on the world market



Global fiber market[2]

Global demand recovers to pre-crisis levels; fiber production continues to rise

Following the pandemic-related shock in the previous year, the demand situation in the textile and apparel industry largely recovered in 2021. Retail sales of apparel returned to pre-crisis levels worldwide. However, major regional differences were evident: in the USA, sales increased by up to 50 percent year-on-year, to stand some 10 to 15 percent above pre-crisis levels. Sales in China were stable, although only just above their 2019 level, while EU sales were almost 20 percent below their 2019 level. Sales in Japan were down by as much as 20 to 25 percent. These differences, some of which are very significant, are particularly due to local infection patterns and the government measures taken.

The extensive recovery in the textile and apparel industry and continuing high demand for medical and hygiene products, which also led to strong demand for nonwoven fibers in 2021, fed through to a significant recovery in the world fiber market. Initial estimates suggest that production levels on the world fiber market are likely to have risen by 2 to 3 percent year-on-year to 116 mn tonnes.

Cotton production decreased by 7 percent to 24.3 mn tonnes in 2020/2021, according to preliminary estimates. This is mainly due to the effect of comparatively high crop yields in the 2019/2020 pre-season. Demand rose by 13 percent to 25.7 mn tonnes. Cotton stocks subsequently reduced, but still remained above 2019 levels.

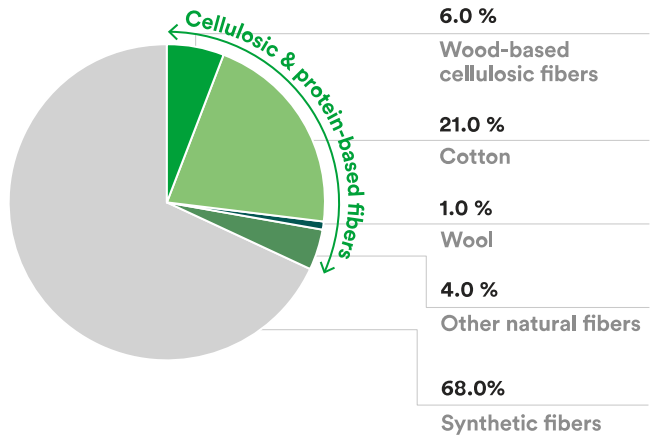
Wood-based cellulosic fiber production in 2021 increased by 8 percent to set a new high of 7.3 mn tonnes, supported by strong demand and capacity expansions. The production of modal and lyocell fibers rose at an above-average rate.

Production volumes of synthetic polymer fibers grew by almost 6 percent to 78.5 mn tonnes, according to initial estimates. Polyester fibers reported the fastest growth in 2021. Polyamide, polypropylene and acrylic fibers were at lower levels, due mainly to price disadvantages compared to polyester, and difficulties in raw material supplies.

[1] Source: IMF, World Economic Outlook, January 2022

[2] All production-related figures in this section were updated from the initial estimates published in the Annual Report 2020.
Source: ICAC, IWF, Cotton Outlook, CCFG, FAO

Global fiber production 2021[1]
by type of fiber in percent (basis = 116 mn tons)



Price trends further affected by COVID-19

The ongoing COVID-19 pandemic continued to affect the general price level for staple fibers in 2021. Prices for a number of fiber types recovered, in some cases significantly, as demand returned.

The cotton price amounted to 127.2 US cents per pound as of December 31, 2021, corresponding to an increase by 50 percent compared with the beginning of the year. On average, the cotton price was 41 percent higher than in the previous year. The rise in cotton prices is only partly attributable to fundamental factors. It is primarily driven by dynamics on international commodity markets and problems in the global supply chain.

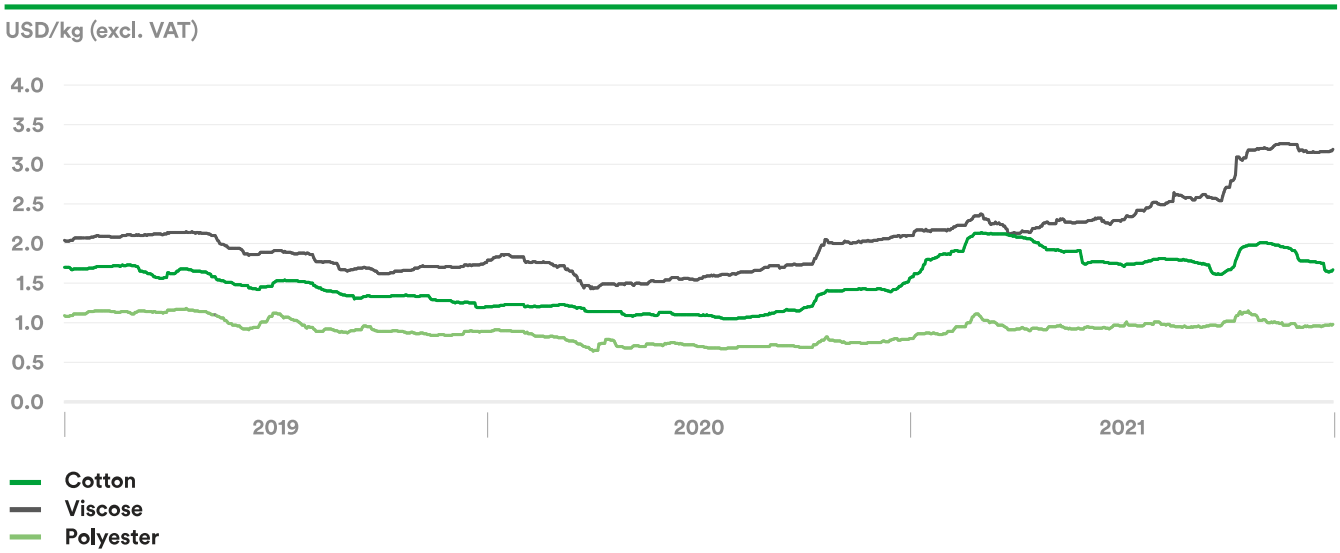
Prices for standard viscose hardly changed over the year. At RMB 12,000 per tonne, the year-end price was only 4 percent higher than that at the previous year-end. However, price trends were subject to significant fluctuations over the course of the reporting year. In the first quarter, prices recorded a significant recovery from the COVID-19 crisis to peak at RMB 15,600 per tonne as of the end of February. As a consequence, prices came under pressure in an environment of subdued demand and rising stocks. In September, the Chinese government imposed measures to reduce energy consumption in industry. This also affected the textile value chain, such as spinning and weaving mills, which in turn had a negative impact on fiber demand and viscose price trends. A brief recovery phase was followed by further decreases in prices from the end of November with the emergence of the omicron variant. Average 2021 prices for standard viscose stood 45 percent higher than the previous year's average.

Prices for wood-based specialty fibers such as those of the TENCEL™, LENZING™ ECOVERO™ and VEOCEL™ brands were much more stable than those for standard fibers.

The Chinese import price for fiber pulp, the key raw material for the production of wood-based cellulosic fibers, rose by 24 percent to USD 905 per tonne during the year, outpacing the increase for paper pulp. In the meantime, the price had even risen to USD 1,106 per tonne in April. Supporting factors for the sustained high price level included a supply shortage due to supply bottlenecks and logistical problems, as well as higher demand at the end of the year. At USD 991 per tonne, the average price for the year was 36 percent higher than in the previous year.

The polyester price in 2021 was affected by significant price fluctuations for crude oil and intermediates, as well as a recovery in demand. The price of polyester staple fiber in China rose by 19 percent year-on-year to RMB 7,020 per tonne at the end of the year. The average price for the year was also RMB 7,020 per tonne, 20 percent higher than the previous year's average.

Staple fiber prices – Development in China[2]



[1] Source: ICAC, CIRFS, TFY, Lenzing estimates

[2] Source: CCFG, CCA

The Development of Business in the Lenzing Group

Thanks to its strategic focus on specialty fibers and a largely positive market environment, the Lenzing Group recorded a significant year-on-year improvement in revenue and earnings trends in 2021. Growing optimism in the textile and apparel industry as a consequence of the progress made with vaccinations and the continuing recovery in the retail sector ensured a significant rise in demand and prices on the global fiber market, particularly at the beginning of the year under review.

Revenue rose by 34.4 percent to EUR 2.19 bn in 2021, reflecting both higher sales volumes as well as higher fiber prices. The focus on wood-based specialty fibers, such as those of the TENCEL™, LENZING™ ECOVERO™ and VEOCEL™ brands, also exerted a positive impact on revenue growth. These positive price and mix effects more than offset negative currency effects.

The earnings trend mainly reflects Lenzing's position within the current market environment. A continued focus on measures to improve structural earnings in all regions reinforced this positive effect. Significant increases in energy, raw material and logistics costs were recorded throughout the reporting year. Earnings before interest, tax, depreciation and amortization (EBITDA) almost doubled year-on-year to EUR 362.9 mn in 2021 (compared with EUR 192.3 mn in 2020). The EBITDA margin rose from 11.8 percent to 16.5 percent. Operating profit (EBIT) amounted to EUR 200.6 mn (compared to EUR 33.9 mn in 2020). The EBIT margin rose accordingly from 2.1 percent to 9.1 percent. The financial result of EUR minus 17.7 mn includes the full write-off of the interest in Hygiene Austria LP GmbH as well as a loan to this same company. Earnings before tax (EBT) increased to EUR 182.9 mn compared with EUR 22.3 mn in 2020). Net profit for the year amounted to EUR 127.7 mn compared with EUR minus 10.6 mn in 2020) and earnings per share stood at EUR 4.16 (compared with EUR 0.24 in 2020).

The income tax expense of EUR 55.2 mn (compared with EUR 32.8 mn in 2020) follows the earnings trend and reflects currency effects and the valuation allowance applied to individual Group companies' tax assets.

Details on revenue and earnings trends in the year under review are as follows:

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

			Change	
	2021	**2020**	**Absolute**	**Relative**
Revenue	**2,194.6**	**1,632.6**	**562.0**	**34.4%**
Cost of sales	(1,692.8)	(1,386.4)	(306.3)	22.1%
Gross profit	**501.9**	**246.2**	**255.7**	**103.8%**
Other operating income	78.0	59.1	18.9	31.9%
Selling expenses	(234.0)	(156.9)	(77.0)	49.1%
Administrative expenses	(117.5)	(88.2)	(29.3)	33.2%
Research and development expenses	(24.0)	(16.2)	(7.8)	48.3%
Other operating expenses	(3.8)	(10.1)	6.4	(63.0)%
EBIT	**200.6**	**33.9**	**166.8**	**492.5%**
Financial result	(17.7)	(11.6)	(6.1)	52.4%
EBT	**182.9**	**22.3**	**160.7**	**722.1%**
Income tax expense	(55.2)	(32.8)	(22.4)	68.1%
Net profit/loss for the year	**127.7**	**(10.6)**	**138.3**	**n/a**

1) Since the beginning of the 2021 financial year, the Lenzing Group has reported its consolidated income statement by applying the cost of sales method. The previous presentation applied the nature of expense method. The complete consolidated income statement is presented in the consolidated financial statements.

Higher level of investment activities

Gross cash flow almost tripled to EUR 372 mn in 2021 (compared to EUR 126.8 mn in 2020), which mainly reflects the earnings trend. Cash flow from operating activities amounted to EUR 394 mn (compared with EUR 48.9 mn in 2020). Free cash flow stood at EUR minus 445.5 mn (2020: EUR minus 614.8 mn), which was especially due to investment activities related to the projects in Thailand and Brazil. Capital expenditure on intangible assets, property, plant and equipment, and on biological assets increased by 26.3 percent to EUR 844.3 mn in the reporting period, approximately half of which was financed from cash flow from operating activities. The sharp increase in investment volumes is primarily due to the implementation of the two key projects.

The liquidity position rose by 4 percent year-on-year to stand at EUR 1.11 bn as of the end of 2021.

Solid balance sheet structure

The Lenzing Group's total assets grew by 27.9 percent compared to December 31, 2020, and amounted to EUR 5.3 bn as of the end

of December 2021. The most significant changes relate to the increase in property, plant and equipment due to the higher level of investing activities.

Adjusted equity rose by 10.9 percent to EUR 2.12 bn as of the end of 2021, primarily due to the operating profit trend in 2021. The adjusted equity ratio decreased from 45.8 percent to 39.7 percent, due particularly to the higher level of total assets. Net financial debt amounted to EUR 977 mn as of the end of the reporting year (compared to EUR 471.4 mn as of December 31, 2020). This increase reflects the financing of the two key projects in Thailand and Brazil. Net gearing rose to 46.2 percent as of the reporting date (compared with 24.7 percent as of December 31, 2020). Trading working capital increased by 0.9 percent to EUR 387.4 mn.

The Development of Business in the Division

In order to prepare the Lenzing Group for the challenges and opportunities deriving from the investment projects and the changed market environment, the Managing Board presented a new organizational structure that is to support the sCore TEN strategy objectives with a focus on profitable, organic growth in specialty fibers, and further enhance efficiency and transparency. As a consequence, the management of the business was adjusted and divided into the two new divisions of "Fibers" and "Pulp".[1]

The Lenzing Group's investment activities in 2021 continued to focus on the expansion of the Group's internal fiber pulp production, raising the share of specialty fibers, and implementing the climate targets in line with the sCore TEN corporate strategy.

In September, the Lenzing Supervisory Board reached an amicable agreement with long-serving CEO Stefan Doboczky on the early termination of his contract. Mr. Doboczky informed the Supervisory Board that he would not be available for a further extension of his contract from 2022. The Lenzing Supervisory Board noted this with great regret, and in agreement with Mr. Doboczky terminated his contract as of the end of the third quarter.

Cord Prinzhorn was appointed CEO on an interim basis. Mr. Prinzhorn has been a member of the Lenzing Supervisory Board since the Annual General Meeting in April of this year. As of November 4, 2021, he relinquished this position until further notice, and assumed the CEO role.

Division Fiber

The Fibers Division comprises all business activities of the Lenzing Group with the different generations of wood-based cellulosic fibers.

Specialty fibers are Lenzing's great strength. The objective is to generate more than 75 percent of fiber revenues from business with wood-based specialty fibers such as lyocell and modal fibers by 2024. The focus of this strategic target was the start-up of the new state-of-the-art lyocell plant in Thailand with a nominal capacity of 100,000 tonnes. Production starts in the first quarter of 2022.

Moreover, Lenzing is investing more than EUR 200 mn in production sites in China and Indonesia to convert existing capacities for standard viscose into capacities for environmentally compatible specialty fibers. In Nanjing, Lenzing is working on converting a line to TENCEL™ modal fibers. The portfolio of the Chinese fiber plant will thereby consist entirely of specialty fibers by the end of 2022. As part of the investment in Purwakarta, Lenzing will bring its entire viscose production up to EU Ecolabel standards. The site will thereby become a pure specialty viscose supplier as of 2023.

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

With the repositioning of its product brands, the Lenzing Group has been sending a strong message to consumers since 2018. With TENCEL™ und 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 continued to enhance the visibility of its brands in 2021 through targeted communication measures.

The revenue of the Fibers Division reached a level of EUR 1.9 bn in 2021, 69.4 percent of which was attributable to textile fibers and 30.6 percent to fibers for nonwovens and special applications. Fiber sales volume increased by 15.5 percent in 2021 to approximately 909,000 tonnes (2020: approximately 787,000 tonnes). The share of specialty fibers in fiber revenues decreased to 72.3 percent (2020: 76.2 %) as a consequence of the recovery in standard viscose prices. The division's earnings (EBITDA) amounted to EUR 214 mn, while operating earnings (EBIT) stood at EUR 107.4 mn.

Textile fibers

The market for textile fibers performed very well in 2021, although significant differences in demand for standard viscose and specialty fibers were discernible in some cases.

Prices for standard viscose were very volatile. High energy, raw material and logistics costs coupled with poor availability of containers further affected the economic attractiveness of standard viscose fibers.

In contrast, the wood-based specialty fibers business recorded stable and high demand in all major producing textile markets such as China, India, Pakistan, Bangladesh and Turkey, as well as for all Lenzing product groups (TENCEL™ lyocell and modal fibers, LENZING™ ECOVERO™ fibers), driven by growing demand for high-quality and sustainably produced fibers from retailers and fashion brands.

Lenzing also presented a variety of new fiber innovations in 2021, which help make its partners' product ranges more sustainable.

In February, Lenzing launched TENCEL™ brand modal fibers with Indigo Color technology. The single-stage spun-dyeing process used here enables indigo pigments to be incorporated directly into the fiber. Compared to conventional indigo dyeing processes, this ensures better color fastness with significantly lower resource con-

[1] Note 3 to the condensed consolidated interim financial statements as of June 30, 2021

sumption. The product has been awarded the EU Ecolabel. This label is awarded to products that meet high environmental standards throughout their life cycle.

To meet demand for more recycling solutions in the textile and apparel industry, in September Lenzing presented carbon-neutral TENCEL™ fibers enhanced by REFIBRA™ recycling technology. The carbon-free lyocell and modal fibers of the TENCEL™ brand generated significant growth in interest among customers and partners along the value chain in 2021. These fibers represent an important step taken by Lenzing and its partners on their joint path to carbon neutrality.

In October, Lenzing expanded its product range to include matt TENCEL™ lyocell fibers. These provide a matt appearance to garments, in contrast to the typical sheen of TENCEL™ lyocell fibers. Feedback from fashion brands and retailers was very positive, leading to good initial sales figures.

In addition to environmental protection, transparency also represents a great challenge for the textile industry. To address the issue, Lenzing expanded its fiber identification system to include TENCEL™ lyocell and modal fibers in 2021. With this step, the company once again underlined its commitment to a transparent textile value chain.

In addition, Lenzing offers an innovative solution based on blockchain technology in collaboration with TextileGenesis™ to ensure traceability along the textile value chain. As of December 31, 2021, more than 600 different partner companies have been successfully integrated into the platform. Thanks to the innovative Fibercoin™ technology of the TextileGenesis™ platform, Lenzing is able to issue digital tokens in direct proportion to physical fiber deliveries. These track deliveries along the value chain and act as a kind of digital twin. The feedback from leading fashion brands and retailers is positive.

Lenzing also made very good progress in the development of the lyocell filament business under the TENCEL™ Luxe brand. TENCEL™ Luxe filaments have been registered with The Vegan Society™ since 2021. The independent certificate proves that the wood-based filaments are manufactured entirely without animal testing or animal components. In 2021, more fabrics were developed as sustainable and vegan alternatives to silk fabrics for outerwear, footwear, activewear and traditional Indian clothing. Leading fashion brands and designers have already incorporated some of these developments into their collections. Lenzing also optimized the operation of its second pilot plant in 2021 and received approval for a project to eliminate capacity bottlenecks in December as a consequence of the positive market trend.

In addition, Lenzing further expanded the awareness and visibility of its TENCEL™ and LENZING™ ECOVERO™ brands in 2021. In the first half of the year, Lenzing reached more than 400 million consumers worldwide with brand activation at Earth Day (#checkwhatsgood), the Oscars (with Red Carpet Green Dress and TENCEL™ Luxe) and #FeelsSoRight. New co-branding initiatives in collaboration with partners such as Zara, PULL&BEAR, Zalando, Massimo Dutti, Camper, H&M and Esprit have greatly increased visibility in the market. The TENCEL™ eShop was opened in February 2021. It now includes ten brands, including Levi's®, H&M, Esprit, Jack & Jones, J.Crew, Mara Hoffman and West Elm. It is the world's first e-commerce portal from a sustainable fiber producer. It was featured in Vogue magazine and has reached over 20 million people to date. The portal now has more than 100,000 page views from an international audience and is continuing to grow. To further raise awareness for sustainable fashion, Lenzing implemented the #MakeItFeelRight campaign from June to December. By the end of the year under review, 510 million consumers in nine countries had been reached.

Nonwoven fibers

The nonwoven fibers business continued to comprise an important strategic pillar for Lenzing in the second year of the pandemic. Higher demand for hygiene products as a consequence of COVID-19 also had a positive impact on demand for nonwoven fibers in the first half of 2021. The high level of stocks worldwide weakened this effect somewhat in the second half of the year.

Lenzing's nonwoven fibers business also continued to benefit from the long-term global trend toward more sustainable, biodegradable materials, supported by new regulations in the markets. The company welcomes the issuance of the guidelines for the implementation of the Single-Use Plastics Directive (EU) 2019/904, which came into force on June 5, 2019. In this directive, the EU Commission specifies which products fall within its scope, thereby providing clarity in the EU member states' joint fight against plastic waste pollution. Lenzing's wood-based and biodegradable nonwoven fibers, such as those under the VEOCEL™ brand, offer a sustainable and innovative solution to this man-made problem. The Single-Use Plastics Directive also provides for uniform labeling requirements for certain products on either the packaging or on the product itself from July 3, 2021. These include feminine hygiene products and wet wipes for personal and household care that contain plastics. With its VEOCEL™ brand, Lenzing provides consumers with clear guidance for their purchasing decisions: products bearing the VEOCEL™ brand logo on their packaging follow stringent certification criteria. This assures consumers that the fibers of the labeled product are biodegradable and contain 100 percent cellulosic material.

With the #ItsInOurHands environmental initiative, the VEOCEL™ brand is specifically raising consumer awareness of issues such as sustainable materials, as well as climate and environmental protection. In 2021, the initiative achieved a global reach of more than 70 million, again also increasing the visibility of the VEOCEL™ brand. With the "It's In Our Hands" school project, the brand is also involved in the "Citizen Science" area, which aims to raise awareness among students aged 10 to 16 concerning the importance of sustainable materials in everyday products. The launch took place in the fall of 2021 in the USA, Germany and Austria.

With the "Nature re-imagined" campaign, Lenzing placed an even greater focus on its particularly environmentally compatible lyocell process in its advertising activities in 2021. The process developed by Lenzing enables more than 99 percent of the solvent to be recovered in a closed loop and to be always fed back into the production process. With VEOCEL™ brand lyocell fibers, Lenzing thereby offers customers in the nonwovens sector a sustainable fiber that also features special properties in terms of quality.

As part of the "Climate Care" campaign, Lenzing launched the first carbon-neutral cellulosic fibers on the global nonwovens market in

the second quarter. The launch of fibers certified as CarbonNeutral® products in accordance with the CarbonNeutral Protocol guidelines represents a further milestone on the joint journey of Lenzing and its partners towards carbon dioxide neutrality. This new offering in the VEOCEL™ brand portfolio is the result of targeted measures to reduce specific product emissions. By utilizing renewable energies, low carbon dioxide raw materials and energy sources, efficient production methods, and carbon dioxide offsetting via verified climate protection projects, it is possible for the first time to offer fibers for nonwoven fibers with a carbon-neutral footprint.

The hydrophobic LENZING™ Lyocell Dry fiber is a further product innovation from the year under review. This combines the benefits of standard lyocell fiber with the ability to repel moisture and liquid. Unlike conventional cellulosic fibers, water cannot penetrate the fibers, with the water instead forming beads on the surface. The fiber thereby makes it possible to tap further application areas that were previously largely dependent on petroleum-based fibers.

With a focus on information and education as well as innovative new products, the company succeeded in expanding its global brand presence and network of co-branding partners in 2021: in the USA, the VEOCEL™ brand cooperates with well-known brands such as Coterie and Neutrogena, and in China with Kotex, a brand of US hygiene products manufacturer Kimberly-Clark. In Turkey, the VEOCEL™ brand joined the multimedia campaign of Turkish hygiene products manufacturer DeepFresh.

Co-products of fiber production

The Lenzing Group produces LENZING™ sodium sulfate as a co-product at all locations where viscose or modal fibers are manufactured. This is used in the detergent and glass industries and for the production of food and animal feed. Sales volumes at the Lenzing site increased by 12 percent year-on-year in 2021.

Since 2019, Lenzing has produced and marketed LENZING™ calcium sulfate, a further co-product reporting a constant trend level. Sales volumes already amounted to 16,000 tonnes in 2021.

Division Pulp

The Pulp Division comprises all Lenzing Group business activities from wood procurement through to the production of fiber pulp and biorefinery products. In addition to the activities in Paskov and Lenzing, the division focused on the implementation of the major project in Brazil in 2021. The construction of the fiber pulp mill in Minas Gerais continues to proceed according to plan, despite the challenges caused by COVID-19. Commissioning is still planned for the first half of 2022. In addition to securing internal supplies, the new pulp mill also enables Lenzing to achieve an important milestone in its climate neutrality strategy. It will be one of the world's most productive and energy-efficient mills and feed more than 50 percent of the electricity generated into the public grid as renewable energy. In 2019, Lenzing made a commitment to reducing its greenhouse gas emissions per tonne of product by 50 percent by 2030 compared with a 2017 baseline. The aim is to be climate-neutral by 2050.

In order to further boost closed loop recycling, Lenzing signed a partnership agreement with Swedish pulp producer Södra in June. The cooperation involves the transfer of knowledge between the two companies, which have been proactively driving closed loop recycling for many years, as well as a joint new process development for the recycling of textile waste. A capacity expansion for pulp from textile waste is also planned. The aim is to be able to recycle approximately 25,000 tonnes of used textiles per year by 2025. 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.

The Pulp Division's revenue reached a level of EUR 759 mn in 2021. Divisional earnings (EBITDA) amounted to EUR 210.1 mn, and operating earnings (EBIT) stood at EUR 164.2 mn.

Wood

Developments on global commodity markets also had a significant effect on the wood market in 2021. A labor shortage in the value chain, increased demand for firewood and biomass as a consequence of high energy prices, as well as a high level of production in almost the entire wood processing industry have tightened the availability of various types of wood and prompted an upward price dynamic.

The Lenzing Group's current procurement strategy entailing long-term master agreements achieved a good stabilizing effect on volumes and prices. Lenzing was consequently able to ensure a good supply situation with moderate price increases at its two pulp plants at the sites in Lenzing (Austria) and Paskov (Czech Republic) during the reporting period.

In 2021, an audit in accordance with the Forest Stewardship Council® (FSC®) and Programme for the Endorsement of Forest Certification™ (PEFC™) forest certification systems confirmed again 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.[1]

Biorefinery

Pulp

The Pulp Division supplies the Lenzing Group's fiber production sites with high-quality fiber pulp, and operates its own fiber pulp plants at the Lenzing and Paskov sites. This covers around two-thirds of Lenzing's pulp requirements. The remainder is largely purchased on the basis of long-term agreements. A total of approximately 600,000 tonnes of fiber pulp was produced at Lenzing's two pulp plants in 2021.

The price of hardwood-based fiber pulp in China increased by 36 percent in 2021 to USD 991 per tonne as of December 31, reflecting high demand along the entire value chain, especially at the start of the year.

[1] License code: FSC-C041246 and PEFC/06-33-92 (Lenzing), and FSC-C118737 and PEFC/08-31-0025 (Paskov)

Increasing internal fiber pulp production forms a key element in the implementation of the sCore TEN strategy. Construction of the pulp mill in Brazil as part of the joint venture with Dexco (formerly Duratex) continued to run to schedule in 2021, and its commissioning is planned for the first half of 2022. The expected construction costs amount to USD 1.38 bn. The project is predominantly financed through equity and long-term debt.

To provide the biomass, the joint venture secured over 44,000 hectares of FSC®-certified commercial forest, and leased additional land, in order to have approximately 70,000 hectares of FSC®-certified land when completed.[1] These plantations operate in full accordance with the Lenzing Group's guidelines and high standards for the sourcing of wood and pulp.

Biorefinery products
In addition to 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.

Sales volumes of the biorefinery products LENZING™ Acetic Acid Biobased and LENZING™ Furfural Biobased rose on average by 3 percent and 14 percent, respectively. The price increases on the cost side were successfully passed on to sales products.

The biorefinery products business area also places a strong focus on sustainability. A lifecycle analysis performed by the 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. Customers increasingly perceive this product advantage as a benefit.

Divisional supplies of energy and other raw materials

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

Energy

Lenzing's biorefinery concept at the Lenzing and Paskov locations makes the Group a pioneer in highly self-sufficient pulp and fiber production. For its other locations, Lenzing is developing energy efficiency enhancement programs.

After historically low prices in the previous year, the 2021 financial year was characterized by extreme price increases for all energy commodities, mainly due to a tight supply situation on the European natural gas market caused by delay in the commissioning of the "Nord Stream 2" pipeline project. Higher demand due to the long winter of 2020/2021 and the good economic situation exacerbated the situation.

Prices for gas and electricity in Europe were well above previous record levels. Natural gas prices were up by 325 percent in 2021, and electricity prices increased by 205 percent. Coal prices rose by 118 percent in 2021 due to the strong economic recovery coupled with a reduction in supply, primarily in Asia.

Prices for carbon credits increased by 108 percent in the year under review, due not only to an artificial shortage of credits issued but also to higher demand for solid fossil fuels such as coal as a consequence of the sharp rise in gas prices.

Oil prices, by contrast, recorded a "moderate" increase of 54 percent during the year under review, due to the dampening effect of global travel restrictions on demand.

The Lenzing Group's procurement strategy for the main cost components, electricity and natural gas, is based on procurement via the spot market. Price increases on global energy markets consequently also led to a significant rise in the company's energy costs in the reporting year.

The Lenzing Group's energy production facilities operated on a largely normal basis in 2021. At the Lenzing site, the construction of the largest open-space photovoltaic plant in the province of Upper Austria is planned on an area of 55,000 m². The project will be implemented in 2022, subject to final regulatory approvals.

In Paskov, a voltage dip in the European power grid led to the prolonged outage of a turbine. As a consequence, less surplus energy was fed into the public power grid in 2021 than in the previous year.

The power plants in Purwakarta were operated with high availability levels and were further optimized. As the coal price in Asia was still very high in historical terms, energy costs remained high in 2021. The price of coal rose by 45.3 percent year-on-year. The grid electricity price recorded a small increase in comparison and was 4.1 percent higher in 2021 than in 2020.

The rising coal price also affected steam prices at the Nanjing site. On average, the steam price in 2021 was 23.1 percent higher than in 2020. The grid electricity price stood 3.8 percent higher than in the previous year. The switchover in energy production from coal to natural gas, which is intended to reduce carbon emissions, was progressed further in 2021.

Other raw materials

The shock to global commodity markets triggered by COVID-19, especially in the fourth quarter, led to tighter supplies and significant price increases in 2021.

Lenzing is working on a long-term concept to enhance supply security. The successful completion and commissioning of the air purification and sulfur recycling plant at the Lenzing site in 2021 represented an important step along this path. Since the start of construction in 2019, Lenzing has invested approximately EUR 40 mn in the project, which will further reduce carbon emissions and increase self-sufficiency in relation to critical process raw materials.

Caustic soda
Caustic soda is used in the production of pulp and is also an important primary product for the production of viscose and modal fibers. It arises as a co-product from chlorine production. Counter

[1] FSC license code: FSC-C006042

to the general price trend on raw material markets, prices for caustic soda decreased in the first half of 2021 due to oversupply in the market. Lower demand as a consequence of COVID-19 was offset by comparatively high production volumes due to generally good demand for chlorine. The market turned around in the second half of the year, and demand has increased significantly while supply has tightened. This situation led to a significant price increase worldwide.

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. Sulfur prices also recorded a significant price increase in 2021, mainly due to higher demand and lower production volumes as a consequence of COVID-19 – with negative effects on availability in the meantime.

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 6.1 mn in 2021. The result (EBITDA) amounted to EUR minus 58.4 mn, while the operating result (EBIT) stood at EUR minus 68.2 mn.

Hygiene Austria LP GmbH

After the allegations surrounding Hygiene Austria LP GmbH became known in March 2021, Lenzing worked intensively to address them. Accompanied by a corresponding set of specifications for the continuation of business operations on a firm footing, Lenzing also transferred its interest to Palmers Textil AG. In order to ensure the continuation of the company as a going concern in accordance with the nature of its formation, Lenzing initially waived a corresponding purchase price (see also press release of Lenzing AG of 04/02/2021). The entirety of this interest has been written off in the meantime.

Investments

The Lenzing Group's investing activities in 2021 continued to focus on increasing its internal fiber pulp production, raising the share of specialty fibers, and implementing the climate targets in line with the sCore TEN corporate strategy.

Capital expenditure on intangible assets, property, plant and equipment and biological assets increased by 26.3 percent to EUR 844.3 mn in the reporting year. The sharp rise in the volume of capital expenditure is particularly due to the implementation of key projects in Brazil and Thailand.

In Brazil, Lenzing and its partner Dexco (formerly Duratex) are constructing the largest pulp mill of its kind with a nominal capacity of 500,000 tonnes per year. Dexco acquired a 49 percent interest in the LD Celulose joint venture, with Lenzing retaining 51 percent. Construction work also progressed according to plan in the year under review, despite the challenges due to COVID-19. For this reason, the commissioning of the mill is still planned for the first half of 2022. The expected construction costs for this largest project in Lenzing's corporate history amount to USD 1.38 bn. The financing is mainly provided by long-term debt funding. IFC, a member of the World Bank Group, and IDB Invest, a member of the IDB Group, are supporting the investment program. Export credit agency Finnvera and seven commercial banks also participated in the approximately USD 1.15 bn financing package.

In Thailand, Lenzing worked at full speed in 2021 to complete the new state-of-the-art lyocell plant with a nominal capacity of 100,000 tonnes per year. Production started in the first quarter of 2022. The investment volume amounts to around EUR 400 mn.

In addition, Lenzing is investing more than EUR 200 mn in production sites in China and Indonesia to convert existing capacities for standard viscose into capacities for environmentally compatible specialty fibers. In Nanjing, Lenzing is working on converting a line to TENCEL™ modal fibers. The portfolio of the Chinese fiber plant will thereby consist entirely of specialty fibers by the end of 2022. As part of the investment in Purwakarta, Lenzing will bring its entire viscose production up to EU Ecolabel standards. The site will thereby become a pure specialty viscose supplier as of 2023.

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

In 2021, Lenzing also announced plans for the largest open-space photovoltaic plant in the state of Upper Austria, covering an area of 55,000 m² at the Lenzing site. In Grimsby (UK), the company is investing GBP 20 mn (equivalent to EUR 23.3 mn) in the construction of a new, state-of-the-art wastewater treatment plant, thereby implementing a planned measure to reduce wastewater emissions by 2022.

The year 2021 also saw the successful completion and commissioning of the air purification and sulfur reprocessing plant at the Lenzing site. Thanks to the new plant, carbon dioxide emissions will be further reduced and self-sufficiency in critical process raw materials will be increased. Lenzing has invested approximately EUR 40 mn in this project since the start of construction in 2019.

Research and Development

Research and development activities in the Lenzing Group are concentrated in the Research and Development Department (R&D), a corporate unit based in Lenzing. At the end of 2021, a total of 222 staff were employed in R&D. R&D expenditures, calculated according to the Frascati method (after the deduction of grants), amounted to EUR 31.6 mn (compared with EUR 34.8 mn in 2020). Lenzing holds 1,487 patents and patent applications (from 190 patent families) in 52 countries as of the end of 2021.

The pandemic and its implications for public and private life continued to affect R&D in the year under review. Lenzing adapted its R&D portfolio to these circumstances in order to continue to fully support key projects and to further advance strategic topics such as textile recycling and forward solutions (e.g. TENCEL™ Luxe and LENZING™ Web Technology).

Focus areas in 2021

Sustainability is not only a core value within Lenzing's strategy, but also a guiding principle for innovation and product development.

In both process and product development, the R&D function is continuously working on solutions that further support the ambitious goal of carbon neutrality by 2050. A current focus in process development is the further integration of the biorefinery concept at the pulp production sites, and consequently even better material utilization of wood as raw material. Further projects focus on closing loops and reducing wastewater, as well as energy efficiency enhancement and the reduction of carbon dioxide emissions.

Lenzing continued to expand its product offering for the textile and nonwovens industries in 2021. The hydrophobic LENZING™ Lyocell Dry fiber, for example, combines the advantages of standard lyocell fiber with the ability to repel moisture and liquid. Unlike conventional cellulosic fibers, water cannot penetrate the fibers. Instead, the water forms beads on the surface. This fiber thereby makes it possible to tap further application areas that were previously largely dependent on petroleum-based fibers.

The Indigo Color technology, which forms the basis for a further product innovation from the year under review, enables denim customers to improve their range in terms of sustainability and quality. With the aid of this pioneering technology, indigo pigments can be integrated during fiber production, which ensures better color fastness than conventional indigo dyeing processes while consuming far fewer resources.

With LENZING™ Web Technology, Lenzing developed a process for producing cellulosic nonwovens directly from textile pulp, thereby enabling processing steps along the value chain to be saved, and the ecological footprint to be reduced. The Republic of Austria highlighted this development's innovative character in 2020 by awarding it the "State Prize for Innovation".

In 2021, Lenzing was one of the few companies to receive sought-after "Green Frontrunner" funding from the Austrian Research Promotion Agency (FFG). "Green Frontrunner" funding helps establish new, aggressive business area strategies that have a positive impact on environmental and climate protection. The project that is being funded bundles several technology areas relating to the further closing of materials loops and reducing emissions in pulp and fiber production.

Innovation centers and collaborations

In addition, intensive communication occurs with the application and innovation centers in Hong Kong and Purwakarta, where new applications for Lenzing's textile fibers are developed on site in cooperation with customers. Based on these joint development activities, Lenzing is intensifying global collaboration with partners along the value chain.

In order to give further impetus to the circular economy, Lenzing signed a partnership agreement with Swedish pulp producer Södra in 2021. As part of this cooperation, the two companies intend to share their knowledge and jointly develop new processes to recycle used textiles. A capacity expansion for pulp from textile waste is also planned. The aim is to be able to recycle approximately 25,000 tonnes of used textiles per year by 2025. Lenzing has been proactively developing and promoting recycling innovations such as its REFIBRA™ and Eco Cycle technologies for several years in order to provide solutions to the global textile waste problem.

The first TENCEL™ lyocell fibers made from wood- and orange-based fiber pulp were presented during the third quarter. The first fabrics are currently being developed in collaboration with Italian specialist Orange Fiber. The upcycling of orange peels as part of the TENCEL™ Limited Edition Initiative represents a further successful attempt by Lenzing to develop new circular solutions together with partners along the value chain.

After its opening in the previous year, in 2021 the nonwovens development center at Hof University of Applied Sciences in Germany was commissioned for internal and external customer trials. In this state-of-the-art facility, new innovative applications for sustainably produced nonwoven fibers from Lenzing are developed together with partners along the value chain.

Non-financial statement

Environmental protection, sustainable business development and responsibility for people form part of Lenzing's fundamental strategic values. As a consequence, sustainability is firmly anchored within the sCore TEN strategy. Current information about sustainability is provided in the Lenzing Group Sustainability Report, which also forms the consolidated non-financial report in accordance with Section 267a of the Austrian Commercial Code (UGB).

Risk Report

Current risk environment

The risks of new virus variants and varying success with vaccination programs in the world's regions are continuing to jeopardize stable economic growth. In 2021, the global economy recovered from the previous year's recession, despite the ongoing COVID-19 pandemic. The International Monetary Fund estimates that growth amounted to 5.9 percent in 2021 (-3.1 % in 2020). For 2022, the IMF forecasts growth of 4.4 percent.

Significant inflation, especially in relation to commodities and energy, is likely to continue to have a major bearing on the global risk environment in 2022. Risks such as supply chain problems, cyber attacks and the consequences of climate change are becoming increasingly significant.

In addition, it has become increasingly important to monitor geopolitical risks. In particular, the war in Ukraine will have a negative impact on the global economy. The Lenzing Group's business is not directly affected by the military conflicts in Ukraine. Indirectly, however, as is the case for industry as a whole, the risk of further increases in energy and raw material costs in particular, as well as negative effects on the capital markets, is also increasing for Lenzing.

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

Lenzing risk outlook for 2022

Increasingly global risks will affect the Lenzing Group's business to varying degrees in the future.

In 2021, the global textile and apparel industry recorded a broad-based recovery from the previous year's pandemic-related demand shock, which also led to a recovery in demand and subsequently to rising prices on the world fiber market. Risks to operating results arise particularly from price fluctuations for key raw materials and energy, which lead to high volatility, especially also for standard viscose. Growing demand for sustainable solutions in the world is adding to the pressure on the standard viscose segment.

The stable trend and continued price premium for wood-based specialty fibers compared to standard fibers such as cotton and polyester continued to have a positive effect on the Lenzing Group's business performance in 2021. As a consequence, the company continues to regard itself as very well positioned with its sCore TEN strategy and its focus on growth deriving from specialty fibers.

Lenzing aims for further organic growth in this area in order to be even more resilient to volatile markets in the future. The Group's own fiber pulp supplies are secured long-term thanks to continuous capacity expansions and sufficient market supply. Investment activities will focus on the implementation in Brazil of the world's largest pulp mill of its kind, including securing a plantation for the supply of biomass. The commissioning of the new plant with a nominal capacity of 500,000 tonnes per year is scheduled for the first half of 2022.

Significant increases in energy, raw material and logistics costs were recorded throughout the reporting year. Price momentum is not expected to diminish in the short term. As far as currencies are concerned, the US dollar fluctuated against the euro within a 10 percent range, while the Chinese yuan fluctuated against the euro in a 9 percent range. A depreciation of the two currencies would have a negative impact on Lenzing's open currency volumes. Liquidity risk is expected to be low in 2022 thanks to the stable financial structure.

No significant loss events arising from operational, environmental or product liability risks occurred in the reporting year.

For the two key projects in Brazil and Thailand, possible cost overruns or long-term delays that could have a negative effect on the Lenzing Group's financial results are not anticipated from today's perspective. Despite the more challenging environment created by COVID-19, the implementation of these projects ran largely according to plan. In Thailand, the lyocell plant started production in the first quarter of 2022.

As at other companies, non-operational risks are playing an increasingly important role in the Lenzing Group. In recent years, especially cyber risks, compliance risks (as well as reputational damage that is often associated with compliance risks) and recruitment risks have been increasingly ranked higher. Lenzing continuously counters these risks with broadly rolled-out standards and a global organizational structure.

Risk management

The main purpose of risk management within the Lenzing Group is to secure and strengthen the company by correctly and transparently assessing financial, operational and strategic risks, including those relating to the ESG area. The Lenzing Group's Managing Board, together with the heads of the reporting departments, conducts extensive coordinating and controlling operations as part of a comprehensive integrated internal control system that covers all locations. The timely identification, evaluation and response to strategic and operational risks form essential components of these management activities and make a significant contribution to the company's value. This approach is based on a standardized, Group-wide monthly reporting system and the ongoing monitoring of strategic and operational plans.

Lenzing has implemented a corporate risk management system for the central coordination and monitoring of risk management processes throughout the Group. This system identifies and analyzes the main risks, together with input from the operating units, and

communicates the results to the Managing Board and senior managers. Risk management also includes the proactive analysis of potential events and near-misses. Further tasks include actively controlling risks and evaluating appropriate measures with the respective business areas. Since 2020, both long-term risks and opportunities related to climate change have been identified and assessed within the Lenzing Group. Mitigation measures corresponding to such risks are taken into consideration in the risk management process, including the requirements of the TCFD (Task Force on Climate-related Financial Disclosures) in relation to climate-related risks.

Risk management strategy

Lenzing pursues a multi-step approach to risk management:

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

The Central Risk Management Department carries out semiannual risk assessments with a five-year time horizon at all production locations and functional units. Long-term risks and opportunities are also analyzed in connection with ESG issues. The main risks, as well as an increasing number of opportunities, are recorded and quantitatively assessed in accordance with international COSO® standards. Those risks are presented outside the consolidated statement of financial position and the consolidated income statement. The financial impact of a potential loss on Group EBITDA or on cash and cash equivalents is taken into consideration. The risks are simulated against EBITDA planning, and the range of potential deviations from the respective budget is determined. Lenzing uses a simulation software which also calculates other KPIs such as value at risk, risk-adjusted ROCE and a sensitivity analysis. Risks that cannot be measured in monetary terms are recorded qualitatively.

Risk reduction

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

Responsibility

Individual risks are assigned on the basis of the existing organization matrix. Each risk is assigned to a member of the Managing Board as "risk owner" and to a risk officer.

Risk monitoring/control

The effectiveness of the risk management system used by the Lenzing Group was evaluated by KPMG Austria GmbH pursuant to Rule 83 of the Austrian Corporate Governance Code (ACGC) as part of a special, limited assurance audit in the reporting year.

Reporting

The main risks are presented in detail in a report and discussed with the Managing Board and the Audit Committee. The risk report is also submitted to the Supervisory Board.

Market environment risks

Market risk

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

The Lenzing Group counteracts this risk by steadily increasing the share of specialty fibers in its global product portfolio and a consistent sustainability and innovation strategy. In addition to increasing the share of specialty fibers, which now accounts for around 72 percent of fiber revenue, the aim is to further expand the company's role as a leader in terms of sustainability in the fiber sector. Lenzing fibers also offer a differentiating feature in the standard fiber sector with their high sustainability and quality standards combined with customer-oriented and solutions-oriented technical support.

The Lenzing Group relies on a strong international market presence, especially in Asia, combined with a first-class regional support network for customers, as well as a high level of customer-oriented product diversification.

Sales risk

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

Competitive and innovation risks

The Lenzing Group is exposed to the risk of losing its position on the fiber market due to greater competition or new technologies developed by competitors. In particular, the Lenzing Group could relinquish its market position if it were no longer able to offer its products at competitive prices, if its products were to fail to comply with customer specifications and quality standards, or if its customer service were to fail to meet customer expectations. Lenzing counteracts this risk with research and development activities that exceed the average for the sector, and by a high level of product innovation and steady cost optimization. The Lenzing Group – similar to other producers – is exposed to the risk that acceptable or superior alternative products may become available and at more favorable prices than wood-based cellulosic fibers.

Laws and regulations

The Lenzing Group is confronted with different legal systems and regulations in its global markets. A change in laws or other regulations (e.g. import duties, product classifications, environmental requirements etc.), as well as a more stringent interpretation of existing regulations and laws, could lead to significant additional costs

[1] Committee of Sponsoring Organizations of the Treadway Commission

or competitive disadvantages. The Lenzing Group maintains certified management systems for quality management according to ISO 9001, for environmental management according to ISO 14001, and for safety management according to ISO 45001. Legal compliance in connection with these management systems is regularly audited both internally and externally.

With its own legal and compliance department, the Lenzing Group has a corporate division that performs corresponding consulting services and risk assessments.

In response to the far-reaching implications of global warming for society and ecosystems, governments and further stakeholders are likely to introduce more stringent laws and regulations. For example, in addition to reducing carbon credits issued in the EU, new taxes on carbon dioxide emissions could be introduced. Other regions and countries are currently also planning to implement similar steps. The implementation of regionally differing measures could have a negative impact on the Lenzing Group's civic performance and success. The Lenzing Group is implementing a number of measures to reduce climate-related transition risks, and to further enhance resilience in this area.

Intellectual property risks

A risk exists that Lenzing's intellectual property may be infringed or incompletely protected. The Lenzing Group counters such risks by means of a dedicated intellectual property protection department.

Climate change and marine pollution

Increasing awareness of problems caused by climate change, such as rising sea levels, the frequency and severity of natural disasters, and a growing risk from pollution of the world's oceans by plastic waste and microplastics, are creating major risks for the entire fiber industry. By producing biodegradable fibers, Lenzing regards this development as an opportunity for its business model.

The Lenzing Group has recognized the far-reaching effects of climate change on society and ecosystems and offers a sustainable alternative with its innovative and biodegradable products. Lenzing is constantly working to set clear sustainability targets and is continuously seeking ways to enhance its energy efficiency as well as opportunities to utilize renewable energy sources or those with lower carbon dioxide emissions. As early as 2020, Lenzing became the first fiber manufacturer to commit to carbon neutrality by 2050.

ESG (Environment, Social and Governance)

As part of a materiality analysis conducted in 2021, Lenzing conducted a multi-stage, holistic survey of the main issues relating to its sustainably oriented business model. From this analysis, the most important risks and opportunities were determined for each ESG topic area. The topics are integrated into the Enterprise Risk Management System and are successively reflected in Lenzing's long-term strategic business planning.

In the environmental responsibility area (Environment), the main focus topics in the risk matrix comprise climate-related issues in connection with global warming (carbon dioxide reduction) as well as sustainable raw material procurement (wood, chemicals) and the growing water shortage in certain regions. Increasing regulation, particularly in relation to the taxation of greenhouse gases and the pricing of carbon, represents a significant risk for Lenzing. Regulations concerning greenhouse gas emissions have already been introduced in countries where Lenzing operates carbon-intensive processes. Lenzing is consistently working on the implementation of energy efficiency measures, as well as the reduction of carbon dioxide emissions in order to reduce the potential burden of eco-taxes.

For Lenzing, wood is the most important natural resource for the production of its biodegradable cellulosic fibers. Despite sustainable sourcing policies and backward-integrated production, a risk exists that wood prices will rise due to climate change, increasing global demand for biomass, and alternative land use. In this context, Lenzing is expanding its pulp capacities in Brazil (see Lenzing Risk Outlook).

The global textile industry, especially the fashion industry in which Lenzing's products are frequently deployed, is regarded in a critical light due to its sometimes resource-intensive consumption of raw materials and its production processes. Lenzing identifies significant business opportunities through access to new and emerging markets with innovative new products and technologies. Innovation and sustainability lie at the heart of Lenzing's sCore TEN corporate strategy.

The production of pulp and fibers is associated with high levels of water consumption and emissions. Lenzing operates a careful global water management system that ensures compliance with both local laws and global standards. Lenzing is counteracting the increasing scarcity of water by continuously improving resource utilization and by optimizing the selection of sites for the expansion of production capacities.

In the area of social responsibility (Social), the main risks were identified in the area of cyber attacks (see IT risks). With regard to the corporate governance area (Governance), the risk of inadequate compliance with corporate governance and resultant risks is considered material. Lenzing is continuously tightening its internal rules and expanding its compliance organization accordingly.

Operational risks

Procurement risk (including pulp supplies)

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

Lenzing has also entered into long-term contractual relationships with several raw material suppliers and service partners. These

agreements require Lenzing to purchase specified quantities of raw materials on standardized terms and conditions, which may also include price adjustment clauses. Lenzing may consequently not be able to adjust prices, purchase volumes or other contract conditions over the short term in order to respond to market changes.

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

Operating risks, environmental risks and risks relating to climate change

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

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

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

Product liability risk

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

Financial risks

For a detailed description of financial risks refer to notes 36 to 39 in the Notes to the Consolidated Financial Statements.

Tax risk

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

Compliance

Increasingly stringent international codes of conduct and legal regulations are creating additional demands on Lenzing in relation to compliance and monitoring. Inadequate controls in business processes or a lack of documentation can lead to the violation of applicable laws or regulations, and significantly jeopardize reputation and commercial success. Lenzing addresses this risk by, among other measures, continuously developing its Group-wide compliance organization, the corporate code of conduct that is valid throughout the Group, as well as directives addressing the areas of bribery and corruption, money laundering and antitrust practices. Further information on compliance is provided in the Corporate Governance Report.

IT risks

Lenzing depends on highly developed information technology (IT) systems for its daily operations. IT systems are vulnerable to a range of problems, including software and hardware malfunctions, malicious hacking and cyberattacks, physical damage to key IT centers, and computer virus infections. Consequently, any major damage, disruption and/or circumvention of its existing IT systems may disrupt Lenzing's business operations.

Personnel risks

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

At the production facilities, Lenzing Group employees as well as external contractors' workers and employees are exposed to a risk of injury. Lenzing's "Heartbeat for Health & Safety" program takes such risk into consideration and includes a strategic approach to risk reduction, precautionary measures and extensive training. For more information, please refer to the Lenzing Group Sustainability Report. In addition, risks related to compliance with legal requirements arise when engaging contractors, particularly in connection with the two major projects in Thailand and Brazil.

Risks relating to major projects

The Lenzing Group is continuously expanding its capacities in numerous projects. Examples include the new pulp mill in Brazil and the lyocell mill in Thailand, which is being ramped up at present. These types of major projects entail an inherent risk of cost and schedule overruns. Lenzing counters such risks with a standardized planning process, consistent project management, ongoing cost controls, as well as insurance solutions and risk transfer. In addition

to ongoing risk management, Monte Carlo simulations are used for projects of this and similar size to model the sensitivity of the key financial indicators. Despite the currently difficult environment due to the COVD-19 pandemic, progress with these two projects is largely running to schedule to date.

Risks from an external perspective and for other stakeholders

As a globally operating company, the Lenzing Group is aware of its social responsibility. The risks described in the risk report refer primarily to the effect on the Lenzing Group's assets and earnings. As one of the sustainability leaders in its sector, the Lenzing Group seeks a balance between the needs of society, the environment and the economy. The company assumes such responsibility, particularly with respect to potential effects of its operations on neighbors of the production sites and in relation to society as a whole. Active stakeholder work to mitigate risks (partnership for systemic change) and to create additional benefits for people and the environment is a clear goal of the Lenzing Group's innovation and operating activities. The Lenzing Group was awarded platinum status in EcoVadis's CSR rating in the reporting year. This evaluation covers the most important practices in the Corporate Social Responsibility (CSR) area. In cooperation with its partners, the Lenzing Group is working on understanding the risks for stakeholders and on finding solutions to mitigate such risks. This work is based on open communication and transparency as well as continuous improvement of technologies and sustainable practices.

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

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

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

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

Financial reporting

The Corporate Accounting & Tax Department has central responsibility for financial reporting, the accounting-related internal control system, and tax issues within the Lenzing Group.

The goal of the accounting-related control system is to ensure the uniform application of legal standards, generally accepted accounting principles, and the accounting regulations specified in the Austrian Commercial Code. This system also covers the consolidated accounting process and thereby ensures compliance with the rules defined by International Financial Reporting Standards (IFRS) and internal accounting guidelines, in particular the Group accounting manual and schedules. The accounting-related internal control system is designed to safeguard the timely, uniform and accurate recording of all business processes and transactions. It thereby supports the preparation of reliable data and reports on the Lenzing Group's financial position and financial performance. The subsidiaries included in the consolidated financial statements prepare financial statements in accordance with both local laws and IFRS standards at the company level on a timely basis. The subsidiaries are responsible for the decentralized implementation of existing rules and are supported and monitored in these activities by the Corporate Accounting & Tax function. The Supervisory Board's Audit Committee is integrated in the accounting-related control system. In addition, the annual financial statements are audited by external certified public accountants and the half-year financial statements are reviewed on a voluntary basis.

The Global Treasury Department, and above all the payments unit, is classified as a highly sensitive area due to its direct access to the company's assets. The accompanying increased need for security is reflected in comprehensive regulations and instructions for all relevant processes. The entire process, from procurement through to payment, is subject to stringent corporate guidelines. These guidelines are largely supported by a Group-wide IT system which requires stringent functional separation, a clear authorization concept to prevent authorization conflicts as well as a stringent dual control principle for transaction settlement, in particular for payments, as well as regular reporting, among other measures.

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

Compliance with legal regulations and internal guidelines

The Lenzing Group's Legal, Intellectual Property & Compliance Department is responsible for legal management. This centralized function handles legal matters within the Lenzing Group and is also responsible for the Compliance Management System (CMS). Together with the Managing Board, it oversees Group-wide compliance with legal regulations and internal guidelines as well as the prevention of legal violations and improper behavior. The Legal, Intellectual Property & Compliance Department reports directly to the Lenzing Group CEO. The CMS evaluates compliance-relevant risks, analyzes deviations from standards and, if necessary, takes measures to reduce them ("prevent, detect, respond"). This department also draws up compliance-relevant guidelines and supports employee training activities worldwide. The Managing Board and the Supervisory Board (or the Audit Committee) receive regular reports on compliance measures.

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

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

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

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

Enterprise Risk Management adopts a holistic approach in this context. In addition to corporate and project risks included in medium-term planning, the focus is increasingly on the long-term consideration and evaluation of ESG criteria and the associated opportunities and risks for the sustainable development of the Lenzing Group's performance and profitability.

Shareholder structure and information on capital

Share capital and shareholder structure

The share capital of Lenzing AG amounted to a total of EUR 27,574,071.43 as of the balance sheet date and is divided into 26,550,000 no-par-value shares. B&C Group is the majority shareholder with an investment in the voting rights of 50 percent plus two shares. NN Group N.V. holds approximately 5 percent of the shares. The free float amounts to approximately 45 percent. This is divided between Austrian and international investors. The Lenzing Group holds no treasury shares.

Position of shareholders

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

Lenzing AG has no shares with special control rights. A resolution passed by the Annual General Meeting on June 18, 2020 authorized the Managing Board, subject to the consent of the Supervisory Board, to purchase treasury shares in the company for a period of 30 months starting on the date of the resolution pursuant to Section 65 Paras. 1 no. 4 and 8 and Paras. 1a and 1b AktG. The treasury shares acquired by the company may not exceed ten percent of the company's share capital. The consideration to be paid for the repurchase must lie within a range of plus/minus 25 percent of the weighted average closing price on the last 20 stock exchange days preceding the start of the corresponding repurchasing program of the Lenzing share.

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

In addition, the Managing Board was authorized for a period of five years from the date of the resolution to approve the sale of treasury shares, subject to the consent of the Supervisory Board, in any manner permitted by law other than through the stock exchange or public offer, and also to exclude shareholders' repurchasing rights (subscription rights), and to determine the conditions of sale.

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

The statutory subscription right may be granted to shareholders in such a manner that the convertible bonds be assumed by a bank or a syndicate of banks with the obligation to offer them to the shareholders in accordance with their subscription right (indirect subscription right).

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

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

The statutory subscription right may be granted to shareholders in such a manner that the convertible bonds be assumed by a bank or a syndicate of banks with the obligation to offer them to the shareholders in accordance with their subscription right (indirect subscription right).

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

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

The Managing Board did not utilize the existing authorizations during the reporting year.

The 77th Annual General Meeting of Lenzing AG was held in virtual format via livestream on April 14, 2021 due to the COVID-19 pandemic. Detailed information about the Annual General Meeting, proposals for resolutions and the results of voting are published on the website Lenzing AG: https://www.lenzing.com/investors/shareholders-meeting/2021.

The 78th Annual General Meeting on April 26, 2022 will also be held in virtual format via livestream due to the ongoing COVID-19 pandemic.

Further disclosures pursuant to Section 243a of the Austrian Commercial Code

No provisions exist other than those stipulated by law that cover the appointment or dismissal of members of the Managing or Supervisory boards.

The Dexco Group (formerly the Duratex Group) has a put option and has the right to divest its interest in the LD Celulose joint venture in the event of a change of control at the Lenzing Group (change of control clause).

Besides this, the company has not entered into any significant agreements that would take effect, change or expire in the event of a change in control as the consequence of a takeover bid. No compensation agreements exist between the company and the members of the Managing and Supervisory boards or with employees that would take effect in the event of a public takeover offer.

Outlook

The International Monetary Fund forecasts global growth of 4.4 percent for 2022. However, the economic recovery from the deep recession caused by COVID-19 remains at risk, and continues to depend on the further course of the pandemic and its implications for individual economic sectors. The sharp rise in energy costs and problems in global supply chains pose further economic challenges. In addition, it has become increasingly important to monitor geopolitical risks. In particular, the military conflicts in Ukraine will have a negative impact on the global economy. The currency environment is expected to remain volatile in the regions relevant to Lenzing.

The extensive recovery in demand in the global textile and apparel industry also led to a recovery in demand and rising prices on the world fiber market in 2021. In the trend-setting market for cotton, signs are emerging of a slight increase in stock volumes in the current 2021/2022 harvest season, although dynamics on international commodity markets and global supply chain problems are likely to continue to have a significant impact on price trends in 2022. At their peak, fiber pulp prices rose by more than 50 percent in 2021. The price stood at USD 905 per tonne as of December 31, 2021.

Lenzing continues to assume growth in demand for environmentally compatible fibers for the textile and clothing industry as well as the hygiene and medical sectors. However, the currently positive market environment continues to be characterized by uncertainty due to the ongoing pandemic. Visibility remains limited as a consequence. Following significant cost increases in 2021, ongoing cost pressure on the energy, raw materials and logistics sides is expected in the first quarters of 2022.

Taking into consideration the aforementioned factors and the imminent commissioning and completion of the key strategic projects, which will already make an initial contribution to earnings starting in the current financial year, the Lenzing Group anticipates that EBITDA in 2022 will lie significantly above the 2021 level.

Lenzing, March 01, 2022
Lenzing Aktiengesellschaft

The Managing Board

Cord Prinzhorn
Chief Executive Officer

Thomas Obendrauf
Chief Financial Officer

Robert van de Kerkhof
Member of the Managing Board

Stephan Sielaff
Member of the Managing Board

Christian Skilich
Member of the Managing Board

Appendix: Notes on the Financial Performance Indicators of the Lenzing Group

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

EBITDA, EBITDA margin, EBIT and EBIT margin

EBITDA and EBIT are viewed by the Lenzing Group as the benchmarks for the strength of operating earnings and profitability (performance) before and after depreciation and amortization. Due to their significance – also for external stakeholders – 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	2021	2020	2019	2018	2017
Earnings before interest and tax (EBIT)	200.6	33.9[1]	165.3[1]	238.3[1]	373.1[1]
+ Amortization of intangible assets and depreciation of property, plant and equipment and right-of-use assets	164.3	160.4	167.0	147.2	134.6
- Income from the release of investment grants	(1.9)	(2.0)	(2.4)	(2.8)	(3.1)
Earnings before interest, tax, depreciation and amortization (EBITDA)	**362.9**	**192.3[1]**	**329.9[1]**	**382.7[1]**	**504.6[1]**

EUR mn	2021	2020	2019	2018	2017
Earnings before interest, tax, depreciation and amortization (EBITDA)	362.9	192.3[1]	329.9[1]	382.7[1]	504.6[1]
/ Revenue	2,194.6	1,632.6	2,105.2	2,176.0	2,259.4
EBITDA margin	**16.5%**	**11.8%[1]**	**15.7%[1]**	**17.6%[1]**	**22.3%[1]**

EUR mn	2021	2020	2019	2018	2017
Earnings before interest and tax (EBIT)	200.6	33.9[1]	165.3[1]	238.3[1]	373.1[1]
/ Revenue	2,194.6	1,632.6	2,105.2	2,176.0	2,259.4
EBIT margin	**9.1%**	**2.1%[1]**	**7.9%[1]**	**11.0%[1]**	**16.5%[1]**

1) Reclassification of capitalized borrowing costs, net interest from defined benefit plans and commitment fees from EBIT/EBITDA to the financial result (see note 2 of the consolidated financial statements as at December 31, 2021).

EBT

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

Gross cash flow

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

Free cash flow

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

EUR mn	2021	2020	2019	2018	2017
Cash flow from operating activities	394.0	48.9	244.6	280.0	271.1
- Cash flow from investing activities	(841.3)	(666.2)	(254.7)	(261.8)	(218.6)
- Net inflow from the sale and disposal of subsidiaries and other business areas	0.0	0.0	0.0	(0.1)	(3.1)
+ Acquisition of financial assets and investments accounted for using the equity method	7.3	4.1	15.6	8.0	6.5
- Proceeds from the sale/repayment of financial assets	(5.6)	(1.5)	(4.7)	(2.6)	(23.4)
Free cash flow	**(445.5)**	**(614.8)**	**0.8**	**23.5**	**32.6**

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 as at 31/12	2021	2020	2019	2018	2017
Cash and cash equivalents	1,113.3	1,070.0	571.5	243.9	306.5
+ Liquid bills of exchange (in trade receivables)	10.8	11.1	9.5	10.5	9.4
Liquid assets	**1,124.1**	**1,081.1**	**581.0**	**254.4**	**315.8**

Trading working capital and trading working capital to annualized group revenue

Trading working capital in the Lenzing Group is a measure for potential liquidity and capital efficiency. It is used to compare capital turnover by relating it to group revenue.

EUR mn as at 31/12	2021	2020	2019	2018	2017
Inventories	477.0	329.4	395.7	396.5	340.1
+ Trade receivables	325.2	249.7	251.4	299.6	292.8
- Trade payables	(414.8)	(195.2)	(243.6)	(251.7)	(218.4)
Trading working capital	**387.4**	**383.8**	**403.5**	**444.4**	**414.4**

EUR mn	2021	2020	2019	2018	2017
Latest reported quarterly group revenue (= 4th quarter respectively)	606.1	437.7	487.3	539.8	532.8
x 4 (= annualized group revenue)	2,424.5	1,750.9	1,949.3	2,159.1	2,131.1
Trading working capital to annualized group revenue	**16.0%**	**21.9%**	**20.7%**	**20.6%**	**19.4%**

Adjusted equity and adjusted equity ratio

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

EUR mn as at 31/12	2021	2020	2019	2018	2017
Equity	2,072.1	1,881.4	1,537.9	1,533.9	1,507.9
+ Non-current government grants	13.7	14.2	15.4	16.9	18.3
+ Current government grants	44.2	19.9	13.1	8.4	7.9
- Proportional share of deferred taxes on government grants	(14.2)	(8.5)	(7.1)	(6.3)	(6.4)
Adjusted equity	**2,115.7**	**1,907.0**	**1,559.3**	**1,553.0**	**1,527.7**
/ Total assets	5,322.8	4,163.0	3,121.1	2,630.9	2,497.3
Adjusted equity ratio	**39.7%**	**45.8%**	**50.0%**	**59.0%**	**61.2%**

Net financial debt, net financial debt/EBITDA, net gearing and net debt

Net financial debt is used by the Lenzing Group as the benchmark for its financial indebtedness and capital structure. It is also an important indicator for external stakeholders. The relation of this indicator to EBITDA shows the number of periods in which the same level of EBITDA must be generated to cover net financial debt. The ratio of net financial debt to adjusted equity (net gearing) illustrates the relation of net debt to adjusted equity. This (and/or a similar indicator) is occasionally used as a financial covenant by lenders. Net debt in the Lenzing Group measures the level of financial debt, including the provisions for severance payments and pensions.

EUR mn as at 31/12	2021	2020	2019	2018	2017
Current financial liabilities	120.1	105.6	129.6	166.2	127.3
+ Non-current financial liabilities	1,981.0	1,446.9	852.0	307.6	255.3
- Liquid assets	(1,124.1)	(1,081.1)	(581.0)	(254.4)	(315.8)
Net financial debt	**977.0**	**471.4**	**400.6**	**219.4**	**66.8**
/ Earnings before interest, tax, depreciation and amortization (EBITDA)	362.9	192.3[1]	329.9[1]	382.7[1]	504.6[1]
Net financial debt / EBITDA	**2.7**	**2.5[1]**	**1.2[1]**	**0.6[1]**	**0.1[1]**

EUR mn as at 31/12	2021	2020	2019	2018	2017
Net financial debt	977.0	471.4	400.6	219.4	66.8
/ Adjusted equity	2,115.7	1,907.0	1,559.3	1,553.0	1,527.7
Net gearing	**46.2%**	**24.7%**	**25.7%**	**14.1%**	**4.4%**

EUR mn as at 31/12	2021	2020	2019	2018	2017
Net financial debt	977.0	471.4	400.6	219.4	66.8
+ Provisions for severance payments and pensions	102.2	103.7	110.8	103.4	105.4
Net debt	**1,079.3**	**575.0**	**511.4**	**322.8**	**172.2**

1) Reclassification of capitalized borrowing costs, net interest from defined benefit plans and commitment fees from EBIT/EBITDA to the financial result (see note 2 of the consolidated financial statements as at December 31, 2021).

Return on capital (ROE, ROI and ROCE)

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

EUR mn	2021	2020	2019	2018	2017
Earnings before interest and tax (EBIT)	200.6	33.9[1]	165.3[1]	238.3[1]	373.1[1]
- Proportional share of current income tax expense (on EBIT)	(52.0)	(45.1)[1]	(60.7)	(57.8)	(79.2)
Earnings before interest and tax (EBIT) less proportional share of current income tax expense (NOPAT)	**148.6**	**(11.2)[1]**	**104.7[1]**	**180.6[1]**	**294.0[1]**
/ Average capital employed	2,766.5	2,216.2	1,922.7	1,750.3	1,571.8
ROCE (return on capital employed)	**5.4%**	**(0.5)%[1]**	**5.4%[1]**	**10.3%**	**18.7%[1]**
Proportional share of current income tax expense (on EBIT)	(52.0)	(45.1)[1]	(60.7)	(57.8)	(79.2)
Proportional share of other current tax expense	3.7	23.0[1]	0.0	3.5	2.4[1]
Current income tax expense	**(48.4)**	**(22.1)**	**(60.7)**	**(54.3)**	**(76.7)**

EUR mn as at 31/12	2021	2020	2019	2018	2017
Total assets	5,322.8	4,163.0	3,121.1	2,630.9	2,497.3
- Trade payables	(414.8)	(195.2)	(243.6)	(251.7)	(218.4)
- Non-current puttable non-controlling interests	(234.4)	(140.3)	0.0	0.0	(18.0)
- Other non-current liabilities	(6.7)	(26.9)	(5.5)[2]	(5.3)[2]	(6.2)[2]
- Other current liabilities	(180.4)	(141.8)	(118.8)[2]	(141.0)[2]	(120.9)[2]
- Current tax liabilities	(38.3)	(2.4)	(20.7)	(10.4)	(21.6)
- Deferred tax liabilities	(59.8)	(42.4)	(41.9)	(50.4)	(52.7)
- Proportional share of deferred taxes on government grants	(14.2)	(8.5)	(7.1)	(6.3)	(6.4)
- Current provisions	(39.1)	(25.7)	(14.4)[2]	(13.8)[2]	(13.3)[2]
- Non-current provisions	(118.2)	(120.4)	(128.3)[2]	(125.4)[2]	(129.3)[2]
+ Provisions for severance payments and pensions	102.2	103.7	110.8	103.4	105.4
- Cash and cash equivalents	(1,113.3)	(1,070.0)	(571.5)	(243.9)	(306.5)
- Investments accounted for using the equity method	(24.8)	(29.1)	(29.2)	(13.4)	(8.4)
- Financial assets	(71.1)	(40.9)	(41.8)	(36.7)	(36.4)
As at 31/12	**3,109.9**	**2,423.2**	**2,009.1**	**1,836.3**	**1,664.4**
As at 01/01	**2,423.2**	**2,009.1**	**1,836.3**	**1,664.4**	**1,479.2**
Average capital employed	**2,766.5**	**2,216.2**	**1,922.7**	**1,750.3**	**1,571.8**

1) Reclassification of capitalized borrowing costs, net interest from defined benefit plans and commitment fees from EBIT/EBITDA to the financial result (see note 2 of the consolidated financial statements as at December 31, 2021).
2) Reclassification of accruals from provisions to other liabilities in accordance with IAS 1 (see note 2 in the notes to the consolidated financial statements 2020).

EUR mn as at 31/12	2021	2020	2019	2018	2017
Adjusted equity 31/12	2,115.7	1,907.0	1,559.3	1,553.0	1,527.7
Adjusted equity 01/01	1,907.0	1,559.3	1,553.0	1,527.7	1,390.5
Average adjusted equity	**2,011.4**	**1,733.2**	**1,556.1**	**1,540.3**	**1,459.1**

EUR mn	2021	2020	2019	2018	2017
Earnings before tax (EBT)	182.9	22.3	163.8	199.1	357.4
/ Average adjusted equity	2,011.4	1,733.2	1,556.1	1,540.3	1,459.1
ROE (return on equity)	**9.1%**	**1.3%**	**10.5%**	**12.9%**	**24.5%**

EUR mn as at 31/12	2021	2020	2019	2018	2017
Total assets 31/12	5,322.8	4,163.0	3,121.1	2,630.9	2,497.3
Total assets 01/01	4,163.0	3,121.1	2,630.9	2,497.3	2,625.3
Average total assets	**4,742.9**	**3,642.0**	**2,876.0**	**2,564.1**	**2,561.3**

EUR mn	2021	2020	2019	2018	2017
Earnings before interest and tax (EBIT)	200.6	33.9[1]	165.3[1]	238.3[1]	373.1[1]
/ Average total assets	4,742.9	3,642.0	2,876.0	2,564.1	2,561.3
ROI (return on investment)	**4.2%**	**0.9%[1]**	**5.7%[1]**	**9.3%**	**14.6%[1]**

1) Reclassification of capitalized borrowing costs, net interest from defined benefit plans and commitment fees from EBIT/EBITDA to the financial result (see note 2 of the consolidated financial statements as at December 31, 2021).