

# Focus Innovation

ANNUAL REPORT 2007 Lenzing Group

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# Focus Innovation

Innovation for the Lenzing Group means enhancing its position as the global pacemaker of the cellulose fiber industry. Steady development of our key areas of competence is the basis of our international market success. One of our strong points: we combine decades of experience in cellulose fiber technology with the profound market and business expertise of our staff. And we know that we can only keep and enhance our lead – from technology to marketing – if we keep our focus on permanent innovation.

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# About us

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The Lenzing Group is an international group of companies with its headquarters in Austria, production sites in all major markets and a global network of sales and marketing offices. Lenzing provides the global textile and nonwovens industry with high-quality cellulose fibers. The company is the leading supplier in many business-to-business markets – from special cellulose fibers to high-tech plastics polymers.

Lenzing quality and Lenzing innovative power set standards for man-made cellulose fibers world-wide. Seventy years of fiber production expertise make us the only producer world-wide of all three man-made cellulose fiber generations, from classic viscose to modal and lyocell. Lenzing's unique combination of consistent customer orientation with leadership in quality, innovation and technology is the foundation of our success.

Our focus on specialty products from cost efficient production is the source of our economic power. Lenzing is committed to the principles of sustainable management and very high environmental standards. Lenzing's core business fibers is complemented by our activities in business fields plastics, as well as engineering.

## Products of the Lenzing Group

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### Business Unit Textile Fibers

#### Fibers for textile applications

- Shirts/blouses
  - Outerwear
  - Lingerie
  - Home textiles
- 

### Business Unit Nonwoven Fibers

#### Fibers for the nonwovens industry

- Wet wipes
  - Surgical covers and wound pads
  - Tampons
  - Fiber-reinforced high-tech products
- 

### Business Unit Pulp

#### Pulp

The primary material for fiber production in the Lenzing Group

#### Chemicals

**Acetic acid:** for the food industry and industrial applications

**Furfural:** for the production of furfural alcohol and as a selective solvent for the oil industry

**Magnesium lignin sulfonate:** for the animal feed industry, for the ceramics and construction materials industry

**Sodium sulfate:** for the detergent and cleaning agents industry, for the glass, textile and chemical industry

**Xylose:** basis of sugar substitutes (caries-inhibiting chewing gum)

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## Business Unit Filaments and Fibers

### Filaments

- Dental Care
- Abrasives and bristles
- Monofilaments

### Acrylic Fibers and Carbon Precursor

- Acrylic fibers
- Precursor

## Business Unit Performance Polymers

### Thermoplastics

- Packaging films
- Artificial turf
- Technical fabrics and laminates

### PTFE (polytetrafluoroethylene)

- Fibers and yarns for filtration
- Filaments for compression packings
- Yarns for textile architecture

## Business Unit Engineering

### Engineering und Contracting

- Fiber- and Environmental Technology
- Pulp Technology
- Filtration and Separation

### Mechanical Construction and Industrial Services

- Mechanical Construction and Industrial Services
- Sheet Metal Technology

### Automation and Mechatronics

- Automation
- Electronics

## Business Unit Paper<sup>1</sup>

- Recycled paper
- Poster paper
- Envelope paper

## Business Unit Energy

- Electricity
- Heat
- Utilities
- Disposal management

<sup>1)</sup> sold with effect from 4 March 2008



# Lenzing FR<sup>®</sup>

Wherever fire and heat are involved, safety has utmost priority: Lenzing FR<sup>®</sup> is always ready to provide superior flame resistance.







# Lenzing Fibers

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Ease-of-wear, excellent moisture management, superior smoothness and suppleness, as well as excellent absorbency are ultimately derived from the properties of the raw material wood. They make Lenzing fibers the material of choice for very special applications.

## Textile Fibers

### TENCEL®

TENCEL® is made from eucalyptus wood grown in sustainably managed forests. The “European Award for the Environment” recognizes the ecological soundness of the production process which is characterized by its almost fully closed solvent cycle. The unique nanofibrillar structure of TENCEL® is the reason for its many natural properties: smooth as silk, strong as polyester, cool as linen, warm as wool and more absorbent than cotton.

#### Areas of application:

- Quilts, bedwear, mattresses
- Shirts, blouses, sportswear, outerwear, workwear
- Sleeping bags, technical applications



### Lenzing Modal®

The raw material beech wood and integrated production create the convincing quality of Lenzing Modal®. Lenzing's full process control, from raw material to final fiber product, makes Lenzing Modal® unique. This fiber stands for ultimate softness, luster and brilliance.

#### Areas of application:

- Terry products
- Homewear and lingerie
- Fashion knitwear



### Lenzing Viscose®

70 years of production experience in viscose fibers set the international quality standard for processing. The raw material wood and environmentally sound production create the ecological advantages and ease-of-wear of this Lenzing fiber.

#### Areas of application:

- Woven and knitted garments



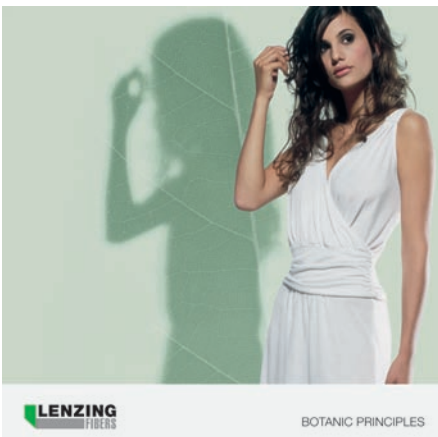


## Lenzing FR®

The strong points of heat protection fiber Lenzing FR®, beyond its flame resistant properties, are its excellent ease-of-wear and superior breathability. The extraordinary heat protection and moisture management properties of this fiber made from the natural raw material wood reduce the risk of heat stress or heat stroke and increase protection from second and third degree burns.

### Areas of application:

- Protective wear for industry, fire fighting and the military
- Flame resistant fabrics for public transport  
(airplanes, trains)
- Flame resistant fabrics for furniture
- Thermal insulation systems for protective jackets



## Botanic Principles

Photosynthesis, the elementary botanic principle, is the basis of Lenzing Modal®, TENCEL® and Lenzing Viscose®. But this is just one of the botanic principles which play an important role in the production of Lenzing fibers. The natural success story of Lenzing fibers is explored in brochure “Botanic Principles”.

# Lenzing Fibers

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## Nonwoven Fibers

### Fibers for demanding applications

Lenzing fibers made from the natural raw material wood combine their natural properties with the advantages of man-made fibers. They are fully biodegradable and provide fleece materials with natural absorbency and softness. These properties and their exceptional purity make them the material for the high standards of nonwoven applications.

Fleece materials made from Lenzing fibers are used in sensitive areas such as hygiene, medical and cosmetics. Well known products are wet wipes for infant care, makeup removal or refreshing tissues. Medical applications are wound pads, surgical swabs and components of operating gowns.

### Lenzing Viscose®

The properties of the natural raw material wood allow this fiber to absorb and retain moisture. Purity, skin friendliness and breathability make Lenzing Viscose® an excellent choice for applications in hygiene and other sensitive areas.



### Viscostar®

Its special fiber profile makes Viscostar® particularly absorbent and therefore suitable for tampons. The fiber was developed in close collaboration with the market and therefore meets highest customer demands. Viscostar® complies with all legal requirements for this sensitive area of application.

### TENCEL®

The improved physical properties of this fiber, such as increased tensile strength, especially when wet, low dust formation and natural absorbency make TENCEL® the avant-garde fiber of the nonwovens industry. TENCEL® is the unique combination of efficiency, purity and softness.



### TENCEL® Short Cut and TENCEL® Tow

TENCEL® short cut fibers serve in high-tech products. Fiber-reinforced construction materials save material, weight and energy. In a carbonized form TENCEL® is used for high temperature insulation – the range of technical applications is almost limitless.

# Lenzing Plastics

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Thermoplastics, PTFE or precursor for carbon fiber production are examples for the broad range of the business fields of Lenzing Plastics. These products are used for special high-tech applications, such as in medical technology, for dental floss, in the automotive industry, for jacketing systems, in hot gas filtration or construction materials.

The versatile product range is divided into four sections:

Thermoplastics:

Production of films, fabrics, tapes and multilayer laminates

**Areas of application:**

- Construction materials
- Artificial turf
- Automotive

Polytetrafluoroethylene (PTFE):

Production of special yarns and fibers from high-tech material PTFE for a broad range of applications

**Areas of application:**

- Medical technology
- Textile architecture
- Hot gas filtration

Filaments:

Production of innovative monofilament products

**Areas of application:**

- Abrasives
- Toothbrush bristles
- Bristles for industrial applications

Fibers:

Production of acrylic fibers

**Areas of application:**

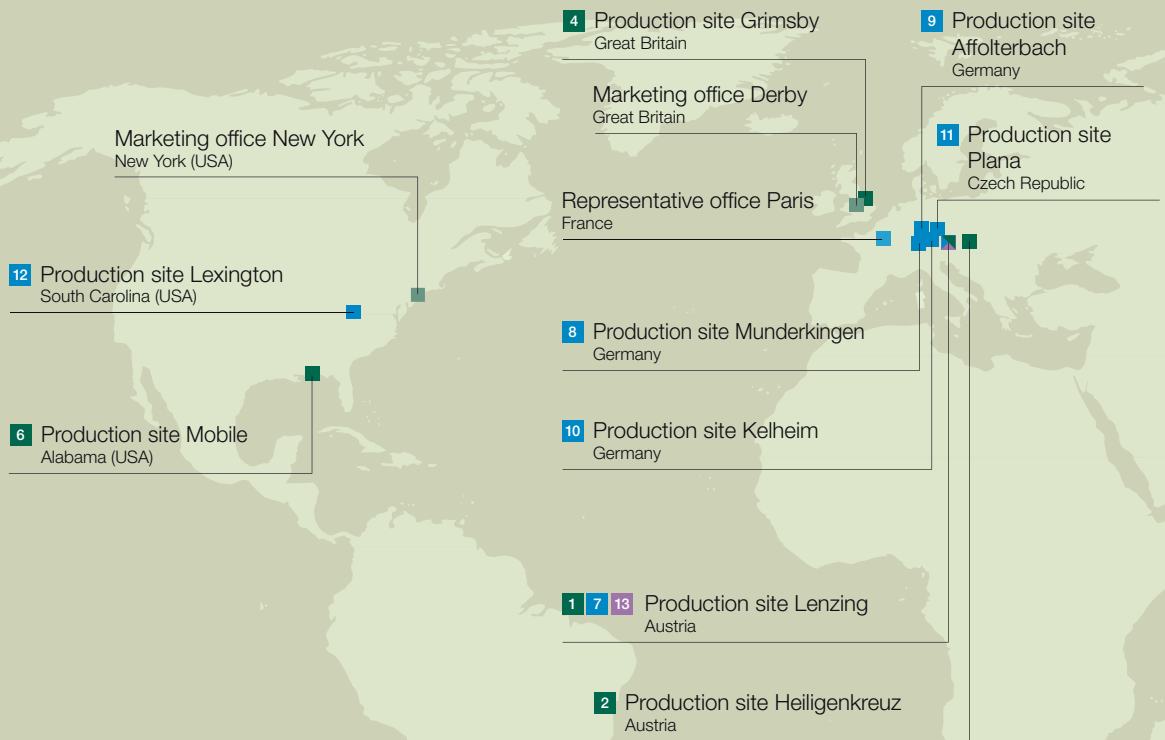
- Soft tops for convertibles
- Outdoor products (e. g. sunshades)

Precursor for carbon fiber production

**Areas of application:**

- Wind energy systems
- Aviation industry
- Yacht construction and sports equipment

# The Lenzing Group 2007



## Production sites | Fiber

### 1 Lenzing Austria

World's largest integrated pulp and viscose fiber production site

👤 Staff: 2,800

🏭 Annual capacity: 237,000 t of pulp  
235,000 t of fibers

### 2 Heiligenkreuz Austria

Lyocell fibers (TENCEL®)

👤 Staff: 180

🏭 Annual capacity: 40,000 t of fibers

### 3 Purwakarta Indonesia

Viscose fibers

👤 Staff: 1,500

🏭 Annual capacity: 155,000 t of fibers

### 4 Grimsby Great Britain

Lyocell fibers (TENCEL®)

👤 Staff: 180

🏭 Annual capacity: 40,000 t of fibers

### 5 Nanjing China

Viscosefasern

👤 Staff: 550

🏭 Annual capacity: 60,000 t of fibers

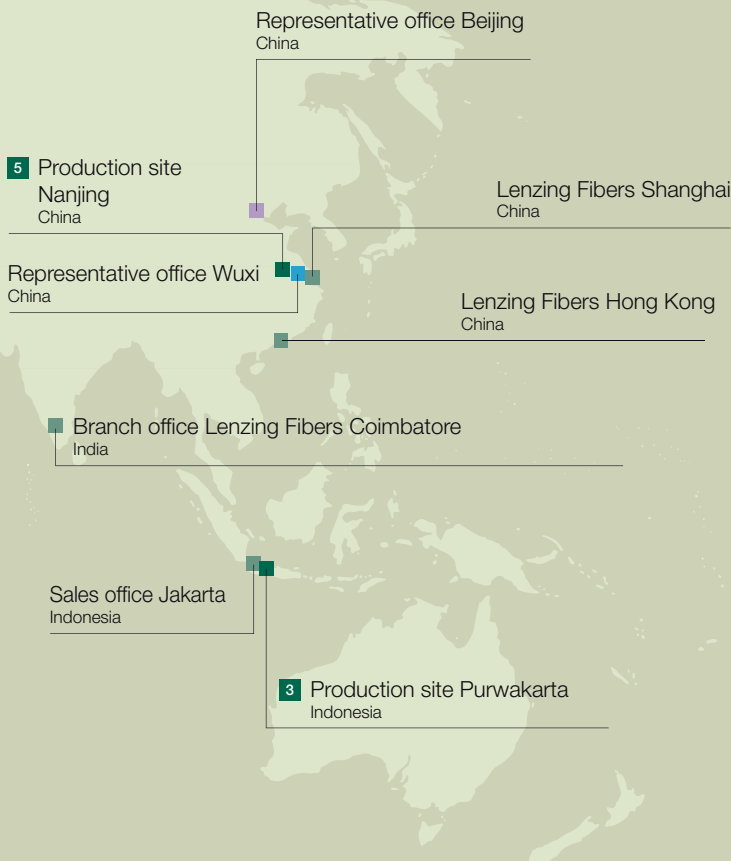


**Productions sites:**

■ Fiber ■ Plastics ■ Engineering

**Offices:**

■ Fiber ■ Plastics ■ Engineering



## | Plastics

**6 Mobile**  
Alabama (USA)  
Lyocell fibers (TENCEL®)  
☺☺☺ Staff: 110  
🏭 Annual capacity: 40,000 t of fibers

**7 Lenzing, Austria**  
Thermoplastics, PTFE

**8 Munderkingen, Germany**  
Bristles, monofilaments, abrasives

**9 Affolterbach, Germany**  
Oral care, bristles

**10 Kelheim, Germany**  
Acrylic fibers, carbon fiber precursor

**11 Plana, Czech Republic**  
Bristles, monofilaments

**12 Lexington, USA**  
Bristles, monofilaments, abrasives

## | Engineering

**13 Lenzing, Austria**  
Technology center

# Lenzing Modal®

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Soft, luxurious fabrics caressing the skin, this is Lenzing Modal® – the ideal partner for body awareness in clothing.

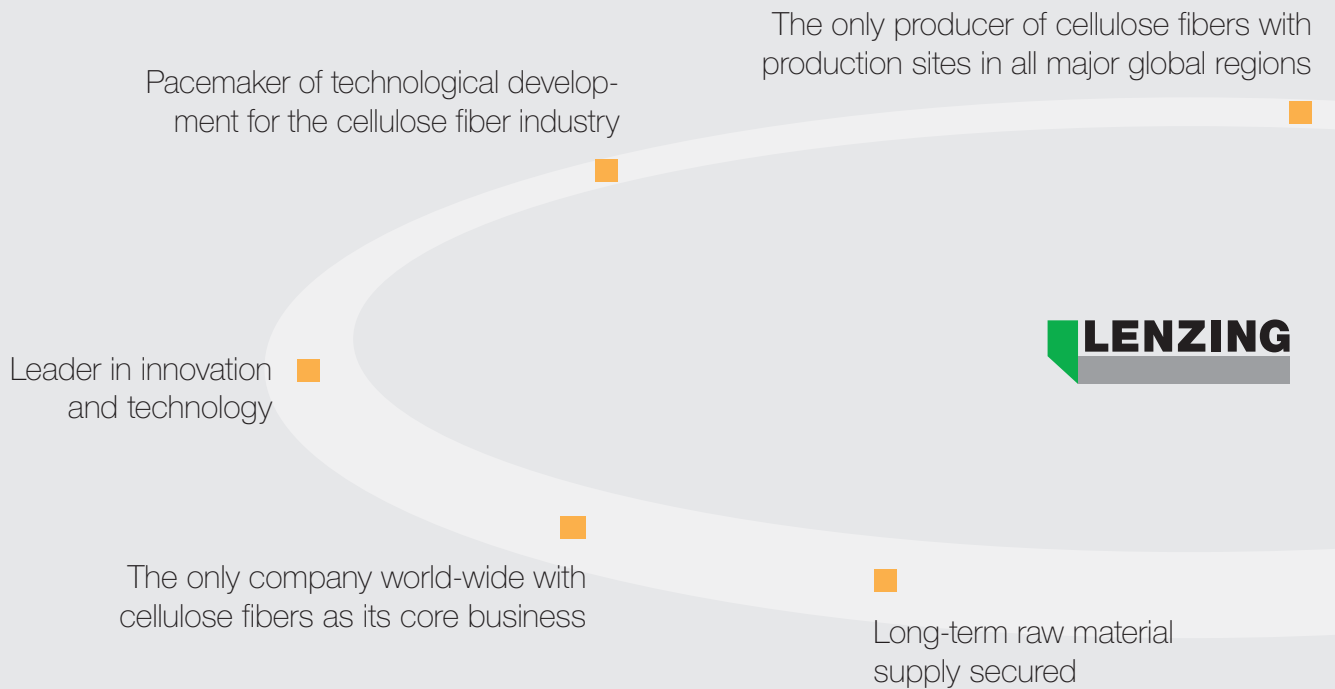




# Leading Fiber Innovation

The Lenzing Group is the global leader in cellulose fibers for the textile and nonwovens industry and a leading company in special plastic polymers.

The pillars of the Group's excellent position are:





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Producer of all three cellulose fiber generations: viscose, modal and lyocell

Successful niche provider of special polymer products

The Lenzing site: largest integrated cellulose fiber production world-wide – the number one expert in pulp production

The only global provider with local customer service

# Leading Fiber Innovation

## Fiber markets

### China

- No. 1 exporter of textiles
- Annual viscose staple fiber consumption 1.1 mill. tons
- Rising standard of living leads to rising consumption of nonwovens convenience products

### Western Europe

- Growth market for nonwoven fibers
- Focus on high-end products in textile fibers

### India

- Greatest market potential, next to China
- Rising demand for sophisticated high quality products

### Indonesia

- Major domestic market for textile fibers

### Turkey

- A stable and expanding market of many years
- Continuous expansion of nonwovens capacity

### USA

- Strong nonwovens growth market
- Important consumer market for textiles

### Taiwan

- Innovative specialty market

### South America

- Market with potential for textile fibers and nonwovens

## Lenzing's mainstay product – cellulose fibers: a global growth market

**Lenzing expects the global demand for cellulose fibers to grow in the medium and long term. The demand is driven by these factors:**

- Cellulose fibers have firmly established themselves in the upper quality segment of the world of textile fibers. Great comfort of wear in textiles; absorbency, excellent technical properties in nonwovens and uniform quality make cellulose fiber an indispensable element of the textile and nonwovens industry.
- Population growth and rising prosperity in the emerging markets and a continuous stream of new applications provide further growth impetus. The per-capita consumption of cellulose fibers is rising steadily.

## ■ Japan

- Highly developed market for textile and nonwovens specialties

## ■ Korea

- Innovative specialty market

## ■ Pakistan

- Important export market for fibers

## ■ Eastern Europe

- Focus Russia: market with potential for nonwovens
- Growing consumer market for textile fibers

## ■ Israel

- Continuous expansion of nonwovens capacity

## □ Vietnam

## □ Syria

## □ Egypt

## □ Bangladesh

- Potential future markets

### World-wide consumption of viscose staple fibers <sup>1</sup>

Nonwovens + 9%  
Textile fibers + 7%

### Growth market Asia – viscose staple fibers <sup>1</sup>

Growth rate of nonwovens + 13%  
Growth rate of textile fibers + 9%

### Per-capita fiber consumption

**International average:** 10.5 kg/year  
**USA:** 41.8 kg/year  
**Western Europe:** 22.5 kg/year  
**China:** 13.2 kg/year

Source: Lenzing Market Intelligence

- Cellulose fibers are made from pulp, which is made from wood, a renewable and climate friendly resource. Wood incorporates carbon dioxide throughout its lifecycle. This climate-friendly and resource conserving raw material is the foundation for the long-term market gains of cellulose fibers.

<sup>1)</sup> 2002–2007 (est.)

# Leading Fiber Innovation

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## Focus on business-to-business niche products

- Lenzing is a supplier of high-quality, innovative products made from cellulose fibers and speciality polymers including carbon fibers precursor. Lenzing is a business-to-business company.
- Lenzing actively maintains an international network of partner companies in the supply chain, from development to processing and retail.
- The focus is on markets for applications and product groups where Lenzing holds leading positions and is instrumental in shaping these markets.
- Lenzing products do not compromise on quality or customer benefit.

## Innovation

- Lenzing is the innovation leader and pacemaker of the cellulose fiber industry and a leading developer of high-quality polymer products for niche markets.
- Lenzing's research and development activities are far above the industry average.
- The expertise of decades provides the foundation for the further development of production processes and attributes specific to Lenzing fibers.
- Innovative marketing strategies and a flexible organization with teams geared to project work and inter-site cooperation create a high level of market awareness and fast response.

## Global presence

- Lenzing is the only global cellulose fiber producer with production facilities in all key markets and an international network of sales and marketing offices.
- Lenzing's global customer and technical service is unique and recognized as setting industry standards.

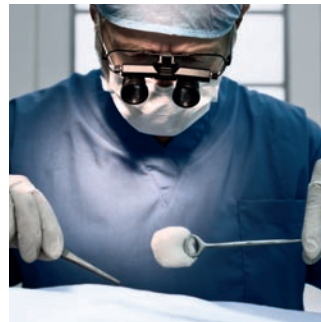
Lenzing is where its customers are: Business Unit Textile Fibers has a clear focus on Asia, the place of future textile growth. Fast delivery, low cost, local production – Lenzing offers all of these to Asia's growing markets. Nonwovens serves its customers globally. Locations in Europe, the USA and Asia secure long-term customer cooperations.

The focus of Plastics is currently still on Europe and North America, future growth will take place with high-tech products, but on a global basis.

## Sustainable growth

- Lenzing focuses on long-term quality growth.
- Lenzing uses renewable resources with low impact on climate change, such as pulp, and applies ecologically sound and energy efficient production processes to the greatest possible extent.
- Lenzing takes care to maintain a long-term raw material supply base.
- Lenzing's products actively contribute to protecting the environment.





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The dedicated strategy of focusing on specialty products has brought fundamental changes to Lenzing's product portfolio:

Its expansion into innovative high-quality specialty fibers, and the opening up of new market segments and fields of application (active sportswear, medical, technical applications) has reduced the dependence on fashion cycles and confirms Lenzing's position as the innovation company with future-oriented products.

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- Lenzing has evolved from a European fiber producer into a global provider of fibers and speciality polymer products within fifteen years.

### Lenzing growth platform plastics

Lenzing has been a successful provider of speciality polymer products for decades. The company responds to the growing market for niche plastics products with a strategy of dynamic acquisition. The product portfolio expands continuously and today covers monofilaments for special applications, PTFE fiber products, carbon precursor and products for the construction industry. The versatile expertise in fibers and materials, as well as research and development geared to the fast pace of innovation equally applies to Lenzing plastics products.

### Competitive advantages size and stability

The cellulose fiber industry is characterized by major investment in capital and expertise. Entry barriers are high. Lenzing's customers appreciate the Group as a reliable supplier all over the world. Lenzing operates on the basis of long-term stable customer relationships, many of them stretching over decades.

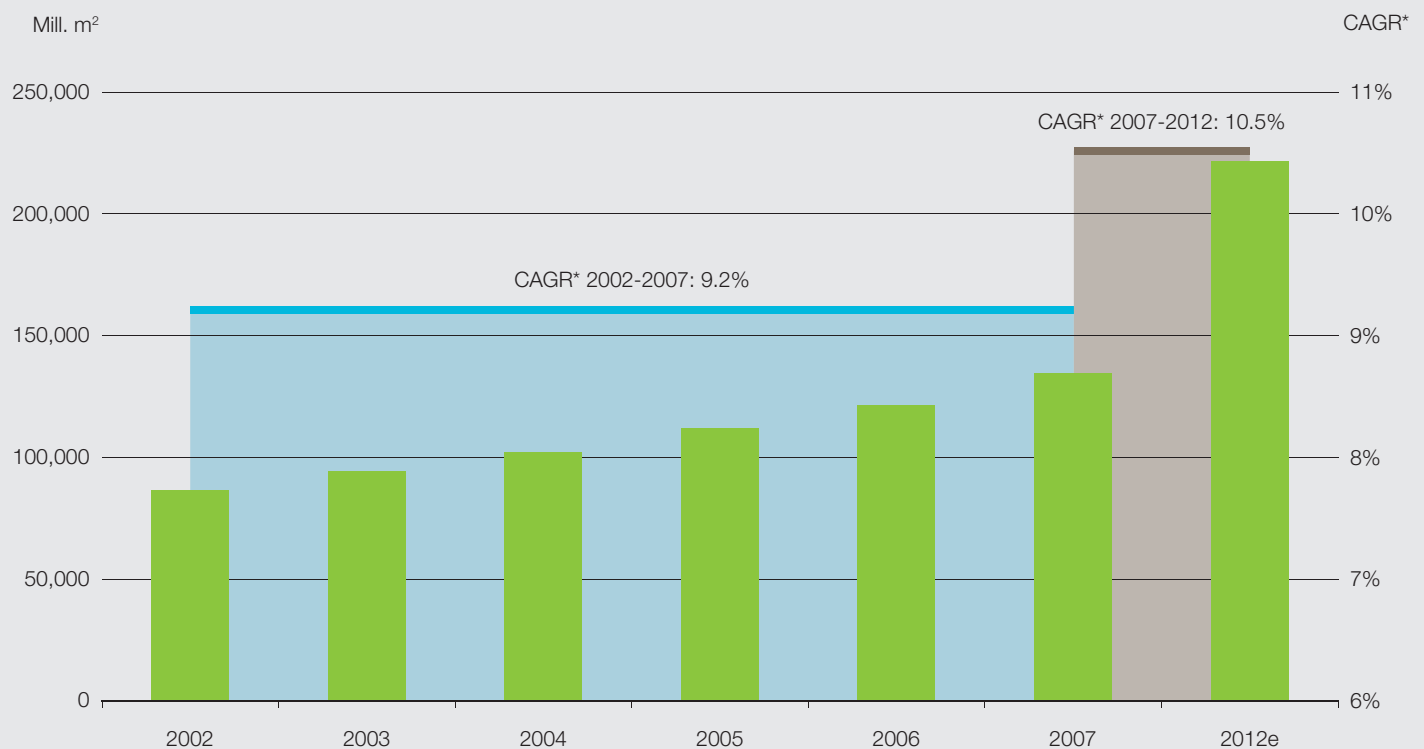
Size, technological leadership, customer orientation and secure raw material supplies make Lenzing the market leader and guarantee product and service quality, as well as supply security. The continuous expansion of its global presence and balance of risks provides stability and reliability.

Lenzing has also proven itself as the reliable partner in speciality polymers. The financial strength of the Group and synergy effects between segments fibers and plastics drive the further rapid expansion of Lenzing's position in the market for high-quality speciality polymer products.



TENCEL® is the perfect fiber for sports. The moisture management of TENCEL® is unique when compared to synthetic fibers and allows for peak performance in sports.

## Global volume development nonwovens



### Innovative power based on technological leadership

Lenzing is the global pacemaker of cellulose fiber innovation. Lenzing matches decades of expertise in the production and application of all cellulose staple fibers with the competence of an experienced producer of pulp. Lenzing continuously enhances its lead by above-average investment in cellulose and fiber research and the further development of cellulose fibers.

Lenzing is the only manufacturer world-wide producing all three generations of man-made cellulose fibers: viscose, modal and lyocell.

The goal of Lenzing is to enhance and secure its expertise in wood and cellulose chemistry, as well as in the production and application aspects of the fiber and plastics industry, and to provide world class innovation.

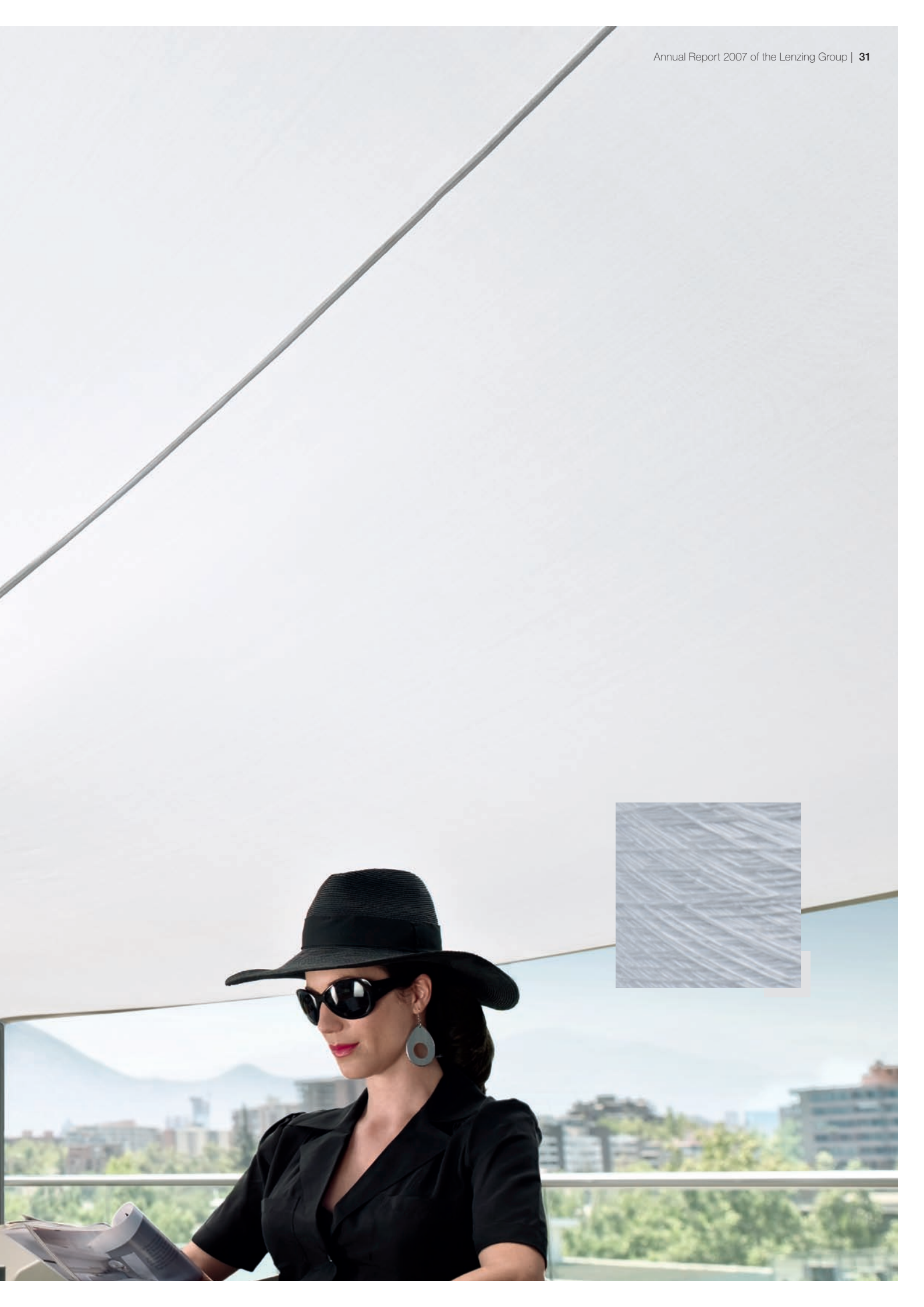
\* CAGR: Compound Annual Growth Rate



# Lenzing PROFILEN®

Lenzing PROFILEN® is a fascinating material with excellent properties for a diverse range of high-performance applications.





# Our Management Team

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## The Management Board

**1** Thomas Fahnemann  
Chairman of the Management Board

**2** Christian Reisinger

**3** Peter Untersperger





## Business Unit Heads

### Textile Fibers

4 Friedrich Weninger

### Nonwoven Fibers

5 Robert Gregan

### Pulp

6 Johann Huber

### Energy

Gottfried Rosenauer

### Engineering

7 Helmut Aigner

8 Johann Weber

### Performance Polymers

9 Wolfgang Plasser

### Filaments and Fibers

David Hoyland

### Paper

10 Sonja Probst

11 Franz Gstettenhofer



# The Management Board

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**1** Thomas Fahnemann  
Chairman

**2** Christian Reisinger

**3** Peter Untersperger

## Responsibilities

Human Resources  
Corporate Communications  
Corporate Compliance  
Corporate Strategy  
Internal Group Auditing

Safety and Security  
Environment  
Infrastructure

Finance, Controlling, IT  
Wood Purchasing  
Purchasing  
Risk Management  
Legal Services  
Patents

## Business Units

Textile Fibers  
Nonwoven Fibers  
Pulp

Engineering  
Energy

Performance Polymers  
Filaments and Fibers  
Paper<sup>1</sup>

## Direct and indirect investments

Pulp Trading GmbH  
Lenzing Fibers GmbH  
Lenzing Fibers Inc.  
PT. South Pacific Viscose  
Lenzing (Nanjing) Fibers Co., Ltd.  
Lenzing Fibers (Hong Kong) Ltd.  
Lenzing Fibers (Shanghai) Co., Ltd.  
BLZ – Bildungszentrum Lenzing

Lenzing Technik GmbH  
RVL Reststoffverwertung  
Lenzing GmbH  
LENO Electronics GmbH

Lenzing Plastics GmbH  
(incl. subsidiaries)



Thomas Fahnemann



Christian Reisinger



Peter Untersperger

<sup>1)</sup> sold with effect from 4 March 2008

# Editorial by the Chairman of the Management Board

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## Thomas Fahnmann (47)

German-born Thomas Fahnmann completed an apprenticeship program for industrial management before studying business management in Mainz. He started his career at Hoechst AG, followed by ten years in the United States with his last assignment as general manager and vice president of one of the largest US polyester manufacturers. He joined Lenzing in March 2003 and stands for the active dynamic expansion of the Lenzing Group. „Heading this excellent corporation towards expansion and growth is the finest challenge of my professional life.“

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2007 was the most successful year in the history of the Lenzing Group. The brisk economic pace of the emerging markets and the gratifying economic development in the western industrial nations brought us a virtual fiber boom.

We made optimum use of these developments. Our strategy of dynamic expansion was confirmed. The start-up of our new viscose fiber plant in Nanjing (China) and the expansion of production capacity at our existing sites enabled us to secure our market share in a market with boisterous growth. Additionally, Lenzing's global market leadership enabled us to implement price adaptations.

We positioned Lenzing as a supplier of innovative fiber products for a continuous flow of new applications, setting us strategically apart from our competition, and we successfully continued to develop the market for cellulose fibers by expanding existing seg-

ments and by developing new ones, thereby laying the foundation for further growth.

In 2007 we made the strategic decision to define plastics as an additional growth platform. Lenzing Plastics has been a highly successful medium-sized provider of niche products in this segment for many years. Our dynamic acquisition policy will almost double 2008 sales in this segment compared to 2006. As a result we have elevated Lenzing Plastics to a new international and broader industrial basis. Executing our strategy, we decided to part with the smallest segment, Paper.

Over the last five years Lenzing succeeded in raising sales by almost 70% and EBIT by 80%. Our clear strategic orientation as a global innovative market leader in cellulose fibers, with a strong growth pillar in high-quality special plastics products, will enable us to continue our expansion. In 2008 we will invest a record

We positioned Lenzing as a supplier of innovative fiber products for a continuous flow of new applications, setting us strategically apart from our competition, and we successfully continued to develop the market for cellulose fibers by expanding existing segments and by developing new ones, thereby laying the foundation for further growth.

EUR 220 mill. in the expansion of production capacity, process optimization and environmental protection.

2007 became a year of major reorientation due to the broad discussion on environment and global climate change. Many people feel personally concerned and worry about the future of their children. The way industrial consumer goods are produced is increasingly influencing consumers' purchasing decisions.

For Lenzing, all this is familiar ground – sustainable management and optimum resource conservation have been an integral part of Lenzing's corporate conception for decades – and Lenzing has been setting standards in the environmentally sound production of cellulose fibers ever since. Lenzing is living proof that resource

conserving production not only is ecologically friendly but, moreover, makes commercial sense.

By far the biggest share of Lenzing sales is generated by fibers made from the renewable and climate-friendly resource wood. The basic properties of wood, our most important raw material for cellulose fibers, offer major advantages. The Botanic Principles inherent in Lenzing fibers provide our core business with additional opportunities. We are going to use these to optimize our long-term success. Our current product portfolio and our market position will enable us to continue our expansion, even through more difficult times.

In closing, along with our staff and shareholders, I want to thank our customers for their cooperation throughout the past year.

My special thanks go out to all our staff for the enormous dedication that made 2007 a successful year.

Lenzing, March 2008



**Thomas Fahnemann**



# Management Report 2007

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The Lenzing Group made optimum use of the positive general economic conditions that prevailed throughout the business year. Lenzing's new sales and results records for 2007 were significantly above the already very good performance of 2006.

## Lenzing Group

**Sales:** EUR 1.26 bill. (up 20.9%)

**EBIT:** EUR 162.3 mill. (up 50.6%)

**EBT:** EUR 151.0 mill. (up 52.2%)

**Net Income:** EUR 117.6 mill. (up 33.1%)





# Management Report

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## General Market Environment

The market environment of segment Fibers in business year 2007 was characterized by very good general economic conditions, despite the continuing rise in raw material prices and the significant weakening of the US dollar versus the euro. Increasing insecurity in international financial markets from the middle of the year on had no impact on the business development in 2007.

The upswing of the global fiber market continued throughout the business year. It was caused by the continuing economic boom in the emerging markets, especially China and India. The fiber industry benefited from the general rise in global prosperity and the resulting increased domestic demand by new consumer groups in these countries. Very good demand in Europe, and to a certain extent in the USA, supported Asia's ongoing export business to Europe and North America. The European textile and nonwoven fiber industry successfully stood its ground against global competition, with innovative products and efficient sales and marketing structures. US-American demand for fiber products was satisfactory as well.

### Global fiber production continues to grow

According to first estimates, global fiber production grew by 3.7% to 71.9 million tons in 2007 (2006: 2.9%), primarily based on the significant increase of chemical fiber production by 8% to 44.7 million tons. Cotton production declined by 2.7% to 26 million tons, despite the increased use of genetic cotton varieties. Wool slightly declined by 0.4% as well.

Chemical fiber production was boosted by China's production plus of 17.9% to 23.9 million tons, followed by India with a plus of 11.7% to 2.8 mill. tons. Since the beginning of the decade China has more than tripled its chemical fiber output and India's has grown by one and a half. Contrary to this medium term trend, production in the USA, Korea and Taiwan strongly declined. China now generates more than half of global chemical fiber production and the country is self-sufficient in standard fibers. This explains the decline of fiber production in the Asian countries that had

previously been exporters to China. China and India, moreover, greatly benefited from the liberalization of import quotas by Europe and the USA.

### Cellulose fibers expand

The global production of niche product man-made cellulose fibers (viscose staple fibers and viscose filament) grew by 8% (2006: 5%) to 3.68 mill. tons. The production of viscose staple fibers (incl. modal, excl. lyocell) grew to an all-time high of 2.43 mill. tons by an above-average growth rate of 12%, with again Asia being responsible for the major share: China increased viscose staple fiber production by 18% to 1.14 mill. tons, making it the world's biggest viscose fiber producer by far. Thailand increased production by 25%, India and Japan by 14% each, Brazil by 17% and Indonesia by 5%. In contrast, production in Western Europe shrank by 2%. According to first estimates viscose fiber consumption for nonwovens grew by an above-average 22% and for textile consumption by about 10%, with Asia as the regional growth center of textile demand.

### Fiber price upswing

Cotton prices rose by 15% to 65 US cents per pound, driven by strong Chinese and Indian demand. Demand for cotton declined in Western Europe, the USA and Japan. Despite intensive WTO level discussions, no change in the US-American cotton subsidy policy is to be expected for the time being.

Prices for polyester staple fibers – the most important chemical fibers – rose between 4% and 9%. Despite price increases, Asian polyester prices were significantly lower than in Europe and North America, due to surplus capacity.

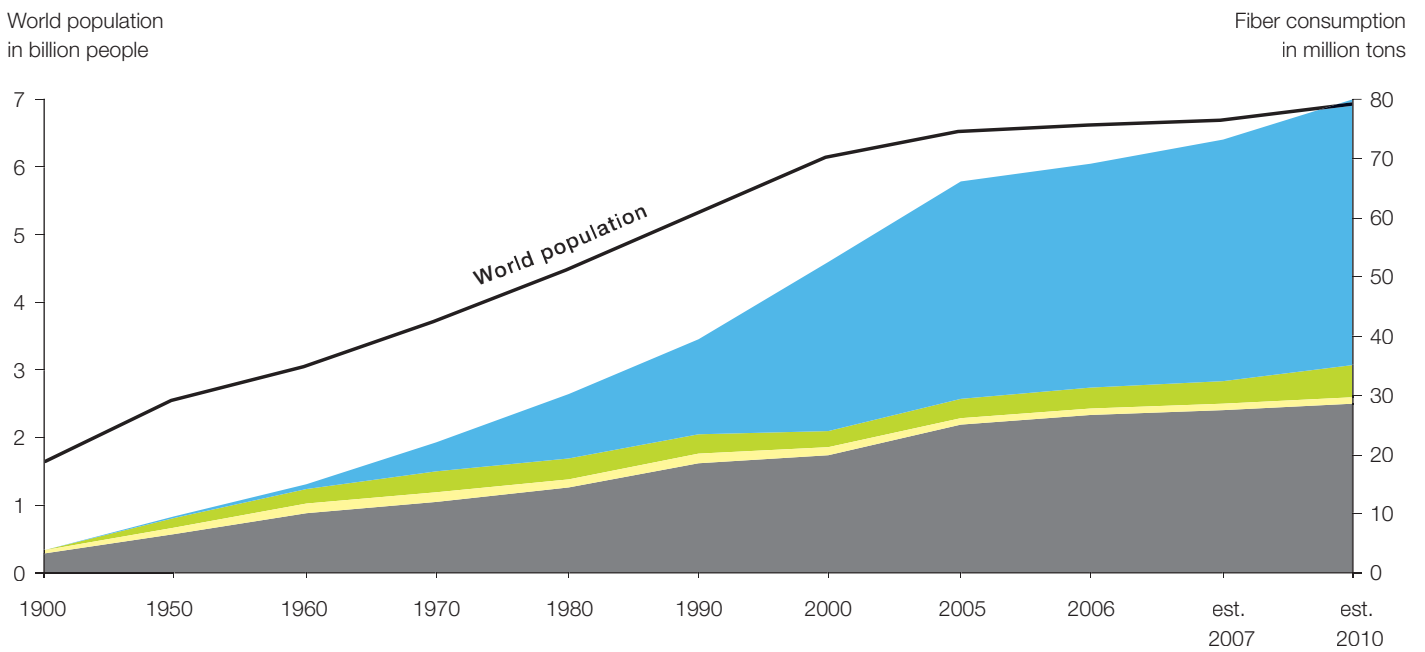
Prices were increased for viscose staple fibers in all markets; on an above-average scale in Europe for nonwovens, as well as in China and Indonesia for textile fibers.

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# World population and fiber consumption

1900–2010

■ Synthetic fibers    ■ Cellulose fibers    ■ Wool    ■ Cotton



# Management Report

## Development of the Lenzing Group

The Lenzing Group made optimum use of the positive general economic conditions that prevailed throughout the business year. Lenzing's new sales and results records for 2007 were significantly above the already very good performance of 2006.

Consolidated sales rose by 20.9% to EUR 1.26 bill. (2006: EUR 1.04 bill.) due to consistent price increases and increased fiber output in segment Fibers and acquisitions in segment Plastics. Segment Paper was sold in the first quarter of 2008 and is not included in the consolidated sales any more.

Core business fibers realized 84.0% of consolidated sales, Plastics 10.5% and Engineering 5.5% (only external sales).

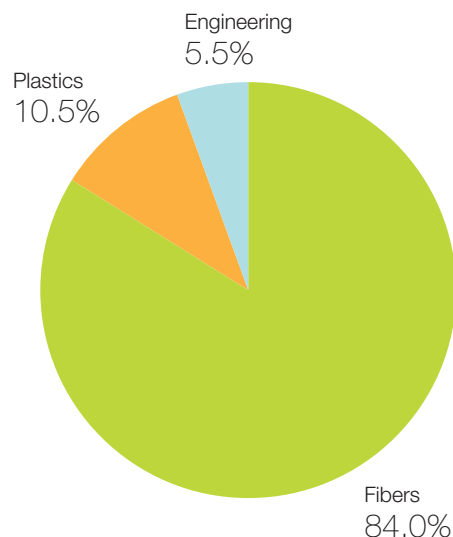
Cost of material and purchased services increased to EUR 709.8 mill. (2006: EUR 592.5 mill.). This rise of 19.8% was in line with the increase in sales. Cost of material was determined by the strong global rise in prices for pulp, as well as chemicals, plastics and wood. Energy prices, in particular for natural gas, remained at their high levels. Good demand allowed core segment Fibers to pass material costs on to the market.

Personnel expenses rose by 14.0% to EUR 229.3 mill. (2006: EUR 201.1 mill.), significantly less than sales. The increase reflects new staff hired at the new fiber production plant in Nanjing (China), staff at the companies acquired by segment Plastics and wage and salary raises due to collective bargaining agreements. The in-

## Lenzing Group:

### Sales by segment

100% = EUR 1.26 bill.





crease of other operating expenses to EUR 144.4 mill. (2006: EUR 119.5 mill.) was, among other factors, due to increased marketing activities.

EBITDA improved by 35.4% to EUR 229.3 mill. (2006: EUR 169.3 mill.) and EBIT rose by 50.6% to 162.3 mill. (2006: EUR 107.8 mill.).

Finance costs rose from EUR 9.5 mill. to EUR 14.6 mill., due to increased investment activity. The expansion of capacities as well as the share increase at PT. South Pacific Viscose and the acquisitions of segment Plastics required more external capital. Moreover, interest rates for US dollar capital rose in 2007. EBT at EUR 151.0 mill. (2006: EUR 99.2 mill.) was 52.2% higher than in 2006. All continuing business operations provided positive con-

tributions. The loss of EUR 0.8 mill. was generated by segment Paper (classified as held for sale).

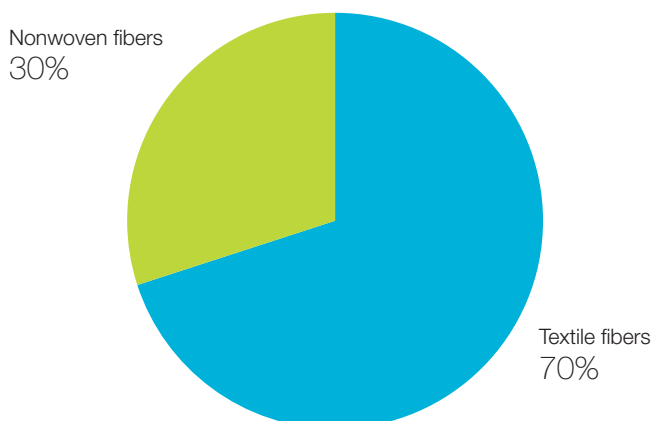
Net income improved by 33.1% to EUR 117.6 mill. (2006: EUR 88.4). The share attributable to shareholders of Lenzing AG of EUR 109.6 mill. yielded earnings per share of EUR 29.83 EUR (2006: EUR 22.83) which is equivalent to a rise of 30.7%. As a result of yet another record year the management board will propose a dividend of EUR 14.00 per share (2006: EUR 10.00).

### Investment secures future expansion

Comprehensive investments made during the business year will further secure the future growth of the Lenzing Group. Investment in intangible assets, property, plant and equipment, and financial assets (including business sector Paper, classified as held for sale) came to EUR 266.8 mill. (2006: EUR 105.7 mill.), allocated mainly to the construction of a new liquor boiler at the Lenzing site and the completion of the new fiber plant Nanjing (China). Investments in financial assets mainly concerned acquisitions by segment Plastics and the share increase to 86% in PT. South Pacific Viscose. The major part of these activities was financed by cash flow from operations.

## Lenzing Group: Core business fibers

### Sales distribution



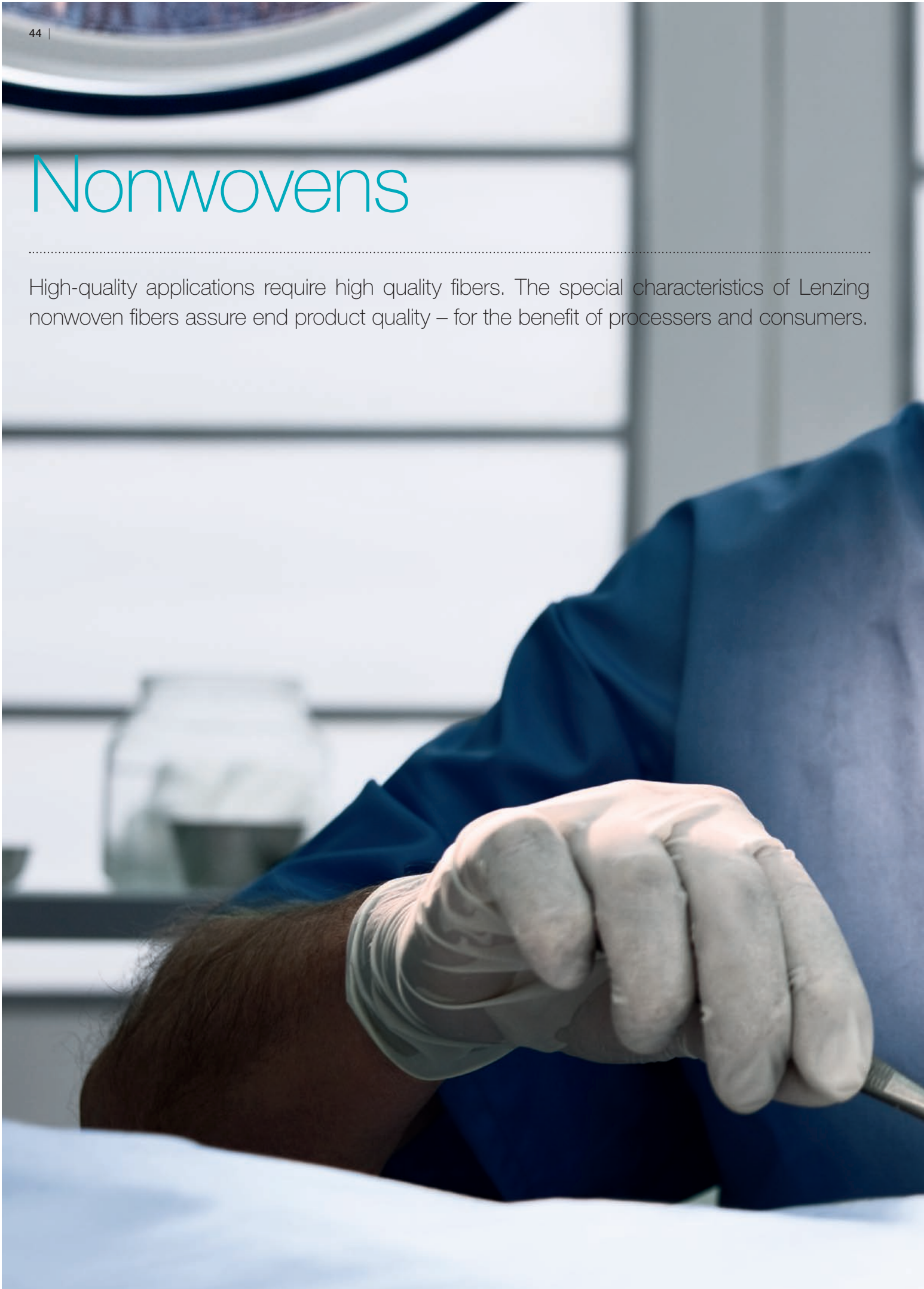
### Unchanged: solid balance sheet structure

The increase of the Lenzing Group balance sheet total to 1.3 bill. EUR (2006: EUR 1.1 bill.) by 23.2% reflects the dynamic growth of sales and the numerous acquisitions made. The balance sheet structure is solid, with an equity ratio of 44.8% at the reporting date 2007 (reporting date 2006: 51.1%), even if net debt rose to EUR 219.6 mill. (2006: EUR 145.9 mill.) as a consequence of high investment activity. Equity at the reporting date was at EUR 562.2 mill. (2006: EUR 516.0 mill.).

# Nonwovens

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High-quality applications require high quality fibers. The special characteristics of Lenzing nonwoven fibers assure end product quality – for the benefit of processors and consumers.







# Management Report

## Segment Fibers

### The dynamic expansion of Lenzing Fibers continues

The Lenzing Group made optimum use of the business year's favorable tailwind and continued its dynamic expansion of segment Fibers.

Sales by segment reporting were EUR 1,069.5 mill. (2006: EUR 902.8 mill.). EBIT improved to yet another all-time high of EUR 148.4 mill. (2006: EUR 89.6 mill.). The EBIT margin of segment Fibers was 13.9 % (2006: 9.9%).

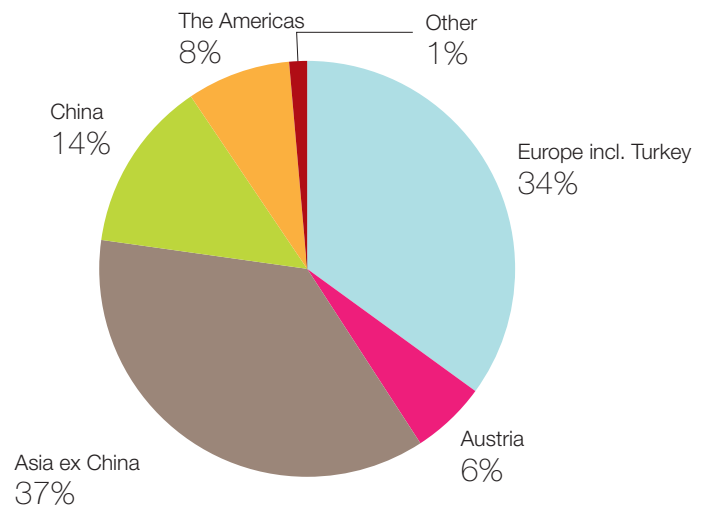
Production ran at full capacity at all sites, resulting in a new production record of 523,000 tons (2006: 480,000 tons). Lenzing thereby further enhanced its global lead in cellulose fiber production in terms of quantity as well as quality.

Production was increased across all sites and the start-up of the new viscose fiber plant Nanjing (China) at the beginning of the second quarter was an important milestone of the business year. The new plant is Lenzing's second production site in Asia, next to Indonesia, and fiber production site number six globally. Lenzing (Nanjing) Fibers Co., Ltd. is a joint venture with Nanjing Chemical Fibre Co., Ltd. (NCFC), with Lenzing and NCFC holding 70% and 30% of the shares, respectively. The nominal capacity of the plant is 60,000 tons of fibers annually for textile and nonwovens. Further expansion is scheduled in step with market developments. The plant was completed in less than two years and is currently operated by about 550 people.

Apart from expanded and new fiber production capacity, sales and results were also improved by the product mix that was further enhanced in favor of high-quality specialty products (Lenzing Modal®, MicroModal®, spun-dyed and flame retardant fibers). Moreover, several price increases, compensating risen raw material prices, were successfully implemented.

## Segment Fibers

### Sales by region



## Strategic decisions on the further expansion of segment Fibers

The Lenzing Group took several important strategic decisions on the further expansion of segment Fibers:

Lenzing plans the construction of a new viscose fiber production plant in India. First-stage production capacity is designed to 80,000 tons of viscose fibers for textiles and nonwovens annually and total investment, including working capital, is budgeted at USD 200 mill.

PT. South Pacific Viscose, Purwakarta (Indonesia), the second-biggest fiber production site of the Lenzing Group, is being consid-

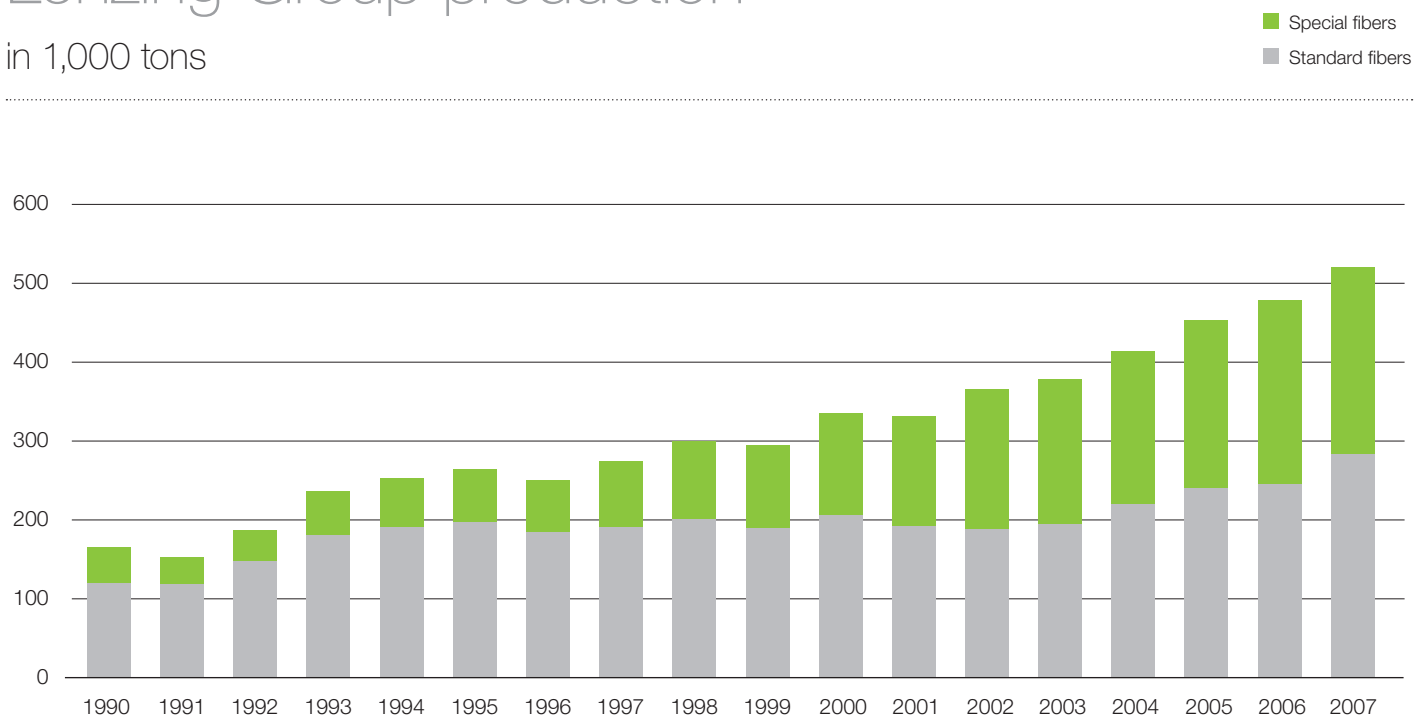
erably expanded. The current viscose fiber production capacity of 155,000 tons annually is to be increased by 65,000 tons to 220,000 tons through the construction of a fourth production line, infrastructure improvements and debottlenecking.

An investment program will expand the annual production capacity at Lenzing (Upper Austria) from currently 235,000 tons to 250,000 tons, with the focus on specialty fibers, to be globally available by 2009.

The expansion of the TENCEL® fiber production site at Heiligenkreuz (Burgenland/Austria) was decided. Annual production capacity will grow to almost 50,000 tons (currently 40,000 tons). The project will already be completed in 2008. It essentially covers the extension of

## Lenzing Group production

in 1,000 tons



# Management Report

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the second production line by two spinning lines, utilizing existing buildings and infrastructure.

A high degree of self-sufficiency and long-term contracts secured the pulp and cellulose supply base of segment Fibers. Considerable price increases for energy, wood, pulp and chemicals had to be absorbed but could be passed on to the market due to good demand.

## Competition rulings in favor of Lenzing

The European Court of Justice, as court of last resort, ruled in favor of Lenzing and against its Spanish competitor SNIACE. It concluded in two cases that SNIACE had received unjustified government subsidies and that Lenzing had not received unjustified subsidies for its production site at Heiligenkreuz (Austria).

## Business Unit Textile Fibers

Business Unit Textile Fibers had an excellent business year and improved on the already very good result of 2006. Strong demand from all sales regions, increased shipments, further enhancement of the product mix in favor of specialty fibers and successfully implemented price increases were the main contributing factors to this success.

Business Unit Textile Fibers put a new focus in marketing on highlighting the plant origin and the natural properties of Lenzing fibers. The concept of "Botanic Principles" positioned Lenzing fibers as products close to nature. The cellulose fibers made by Lenzing

were successfully presented to a growing number of customers as natural, climate-aware products with excellent properties.

Lenzing textile fibers were a major success with high-quality brands. Superior moisture management functionality and ease-of-wear are increasingly appreciated by producers, leading to a considerable broadening of the supply share to sportswear producers and the home textile industry.

The specialty fibers made by Lenzing achieved a much noted breakthrough with a first order for flame retardant fibers for a new generation of US armed forces uniforms. The US president signed an amendment in February 2008 permitting the use of Lenzing fibers for US armed forces uniform fabrics. Lenzing will expand its production capacity for FR fibers as part of its strategy of specialization to meet the strong demand.

## Outlook Business Unit Textile Fibers

There was no substantial change in global fiber demand during the first weeks of 2008. Cotton prices continued to rise and polyester fibers in Asia declined slightly. The demand for Lenzing fibers for textile and nonwovens applications remained undiminished. Market indicators, however, point to a textile pipeline filling up and to a significant weakening of demand after boom year 2007. This is indicated by new fiber production capacity in Asia adding to production and some uncertainty over the future business development of the industry, based on the latest US economic indicators.

The Lenzing Group will consistently continue to expand segment Fibers in business year 2008 as well. The ongoing expansion of existing fiber production plants and the clear positioning as the sup-



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plier of specialty products in the top quality segment set Lenzing clearly apart from its competitors. In 2008, Lenzing will increase its focus on special applications, such as fiber for protection and work wear. Even in the event of a more hesitant demand situation, the business development of Business Unit Textile Fibers is again expected to be very good.

## Business Unit Nonwoven Fibers

Business Unit Nonwoven Fibers achieved new records in sales and results. The reasons were increased shipments, broadening of regional sales bases, especially in fast growing Asia, and the development of new areas of application and additional marketing activities. The success of products based on TENCEL® nonwovens was remarkable.

The convenience product sector grew considerably. Wipes for a broad range of applications – from hygiene and cleaning to medical applications – were much in demand. Sales of Lenzing fibers for technical applications increased as well. The unique properties of cellulose fibers, in particular TENCEL® enabled the implementation in new market segments such as the automotive industry, filtration technology and medical technology.

### Outlook Business Unit Nonwoven Fibers

Continuing strong demand characterized the order situation of the first months of 2008. High raw material and fiber prices may lead to a weakening of demand after the surplus of 2007 and a more difficult market situation.

The start-up of the new viscose fiber production plant in Nanjing (China) will allow Lenzing to enhance its market position in nonwovens in China as well as in North America via exports from China. The service teams and teams for sales and marketing have been enlarged to that purpose. Another focus will be the marketing of TENCEL® nonwoven fibers for diverse technical applications.

To secure its market position in the long term, Lenzing will increase its development activities in new applications, new fibers and production processes for fiber end products in nonwovens. A new nonwovens pilot plant at Lenzing is under construction. Medical applications will form a separate development focus.

The dynamic expansion of Business Unit Nonwoven Fibers is expected to continue due to the continuously growing demand for high-quality convenience products.

In business year 2007, Business Unit Nonwoven Fibers achieved new records in sales and results.

# Management Report

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## Business Unit Pulp

Pulp is the most important raw material for the fiber production of the Lenzing Group. Business Unit Pulp takes care of the group-wide supply of all fiber production plants with pulp of the required quality and quantity. Pulp, moreover, distributes by-products of cellulose and fiber production, such as acetic acid, furfural and sodium sulfate.

The growing demand for dissolving pulp led to extreme shortages and dramatic price increases in the course of 2007. US dollar quoted world market prices for pulp for fiber production doubled within a year. The Lenzing Group fully secured its supply base by its high degree of integration and long-term contracts with external suppliers.

## The Lenzing site

The Lenzing site is fully integrated and fiber production is fully supplied with pulp by Lenzing's pulp factory. Excess production is marketed within the Lenzing Group.

The business year saw the start-up of a new waste liquor boiler increasing combustion performance and the recovery of chemicals. Moreover, a new line of exhaust vapor condensation increases the recovery rate of acetic acid and furfural. This enabled a further increase of production to 237,000 tons of pulp (2006: 225,000 tons).

Increased wood prices were largely absorbed by the proceeds from increased pulp and by-product production at the Lenzing site. The output of sodium sulfate was in line with fiber output. The market development of all by-products was positive.

## Outlook Business Unit Pulp

The international pulp supply situation continued to be tense into 2008 and led to all-time price highs. The start-up of new viscose fiber production capacity in China aggravated the situation. The market is expected to relax only with added pulp production capacity in the course of the year.

The Lenzing Group pulp supply for 2008 and beyond is secured by continued capacity expansion at the Lenzing site, long-term supply contracts and sufficient stock keeping.

## Business Unit Energy

Business Unit Energy is responsible for the stable and cost-efficient energy supply of the Lenzing Group. It provides the Lenzing site with electricity, process heat, cooling, water and all other essential media required for production.

The tight price situation for energy did not change for any type of energy. Price increases were combated by the increased use of biogenic residual materials as a source of energy.

2007 was Save Energy Year at the Lenzing site and all of Lenzing's staff was invited to an awareness-building process and to defining measures and projects on how to save energy. The implementation is expected to yield savings of about three percent. The new waste liquor boiler of the pulp production facility is decisive in optimizing energy utilization. It has been in full operation since the second quarter and fully meets expectations.

The Indonesian subsidiary PT. South Pacific Viscose replaced fuel oil with cleaner natural gas. Moreover, numerous energy sav-



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ing ideas collected already in 2006 were implemented. A steam pipeline now connects the Heiligenkreuz site to the biomass plant BEGAS nearby and fiber production is already partly supplied with steam from environmentally friendly production.

#### Outlook Business Unit Energy

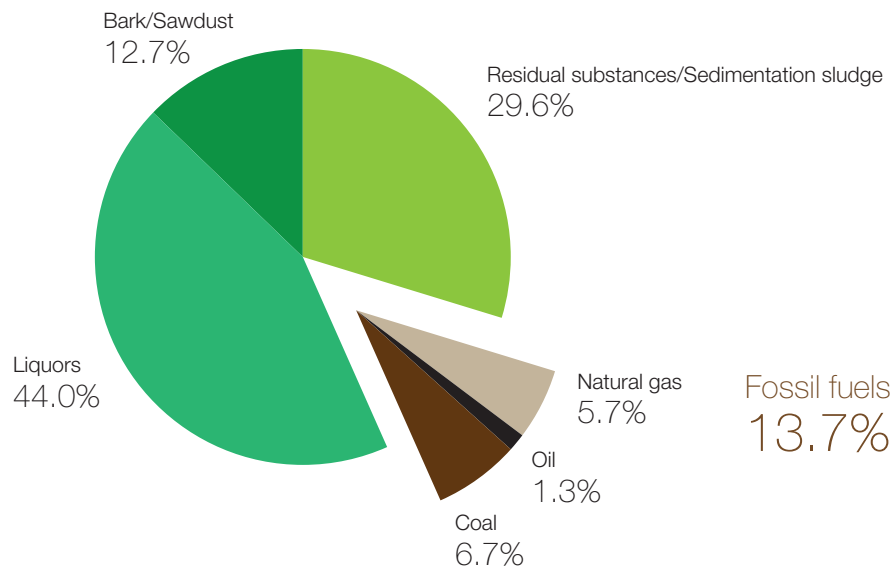
For the time being, the energy price situation is not expected to ease up. Comprehensive investment scheduled for the next

years will improve group-wide energy efficiency. At the Lenzing site measures to increase the efficiency of a steam turbine system will be completed in 2008 and the construction of a new soda boiler, to be completed in 2009, will begin. As part of the fiber production expansion project, the Indonesian subsidiary PT. South Pacific Viscose will install a new multi-fuel fluidized bed boiler with a downstream steam turbine for optimum co-generation. A second project is the extension of the water treatment facilities. Both installations are expected to go operational at the end of 2009.

## Lenzing AG\* fuel mix

Annual fuel input (2007): 12,600,863 GJ

Biogenic fuels and  
residual substances  
**86.3%**  
CO<sub>2</sub> neutral



\* incl. RVL

# Management Report

## Comparison of energy sources

World consumption, Lenzing Group and Lenzing site\*



Energy Source	World	Lenzing Group 2007	Lenzing site 2007
Non-fossil fuels	8.0%	45.4%	86.3%
Nuclear	6.0%	0.0%	0.0%
Oil	39.0%	1.1%	1.3%
Gas	23.0%	24.8%	5.7%
Coal	24.0%	28.7%	6.7%

\*) incl. RVL

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## Segment Plastics

Plastics is the second main pillar of the Lenzing Group, next to segment Fibers. Business Unit Plastics provides high-quality specialty products based on a variety of polymers, focusing on thermoplastics, PTFE fibers and yarns, short cut filaments and carbon precursor. Segment Plastics pursues a clear strategy of expansion.

The market environment for classic portfolio products developed well. The lively construction industry of 2007 enabled sales above expectations of products for construction materials. All MOPP\* plants ran at full capacity due to the development of a novel product line, technical packing. The demand for cable industry products, insulation and hot gas filtration was very positive as well.

Plastics prices rose steadily by a total of 15% to 20%, characterizing the business year. The rate of increase leveled off only in the last quarter. Only part of the raw material price increases could be passed on to customers.

### Expansion strategy

Business Unit Plastics pursues a consistent expansion strategy and the four acquisitions of 2007 provided significant dynamic impulse, elevating Lenzing Plastics to a new plane of industrial activity. The integration of the new companies has been almost completed. The acquisitions provided a significant contribution to sales. Sales according to segment reporting improved to EUR 133.1 mill. (2006: EUR 93.5 mill.). Segment EBIT rose to EUR 9.0 mill. (2006: EUR 8.9 mill.) and staff grew from about 350 to almost 1,000. Lenzing Plastics currently operates a total of six production sites in Europe and the USA.

The acquisition of a major European manufacturer, the Hahl Group GmbH, in the first quarter of 2007 made Lenzing a leading supplier in the business sector for cut plastics filaments for synthetic brushes, bristles and fabrics. The next acquisition followed the insolvency proceedings of German plastics manufacturer Pedex & Co. GmbH, the leading German provider of filaments for brushes

for industry and trade. It perfectly complements Hahl's product portfolio of high-quality filaments. Pedex generated sales of EUR 12 mill. Its plastics filaments are used in cosmetics and hygiene, for toothbrushes and medical devices, as well as for industrial-professional applications such as brushes and domestic purposes. Pedex focuses on the upper market segments and asserts itself against cost pressure from Eastern Europe and Asia.

With a further acquisition Lenzing Plastics GmbH took over the major share of the assets of US-American monofilament plastics producer Glassmaster which were for sale as part of Chapter 11 proceedings. Lenzing now operates the monofilament business from its site at Lexington/South Carolina. The company produces cut plastics filaments for synthetic brushes, bristles and fabrics for industry and trade and realized sales of USD 7 to 8 mill. As Hahl Inc. it now forms the growth platform for the US business of the Hahl Group, which developed according to expectations.

These three acquisitions made Lenzing a global supplier of industrial abrasives and bristles with a very attractive market position. The consolidated financial statements have included Hahl since April, Pedex since May and Hahl Inc. (Glassmaster) since June 2007.

Lastly, the acquisition of the German specialty fiber producer Dolan GmbH in Kelheim was finalized as of 31 December 2007. Dolan and its staff of 100 generated sales of EUR 25 mill. in 2007. The company had been a full subsidiary of Kelheim Fibres GmbH, a fiber producer in which Lenzing holds an indirect share of 35%.

The company Dolan manufactures acrylic fibers for a range of outdoor applications, in particular high-quality textile architecture. Sunshades, sun sails, cover fabrics for garden furniture, convertible soft tops, and decks are some end products made of the material Dolan.

Dolan fibers are highly photostatic and weather-proof, as well as highly resistant to wear and decomposition. Dolanit, moreover, is the brand name of a fiber for technical applications, such as waste gas filtration systems and reinforcements for friction linings, as well as construction materials.

\*1) Monoaxially Oriented Polypropylene

# Management Report

Dolan perfectly complements the product portfolio of Lenzing Plastics, especially in outdoor products and filtration technology.

## New business field carbon fibers

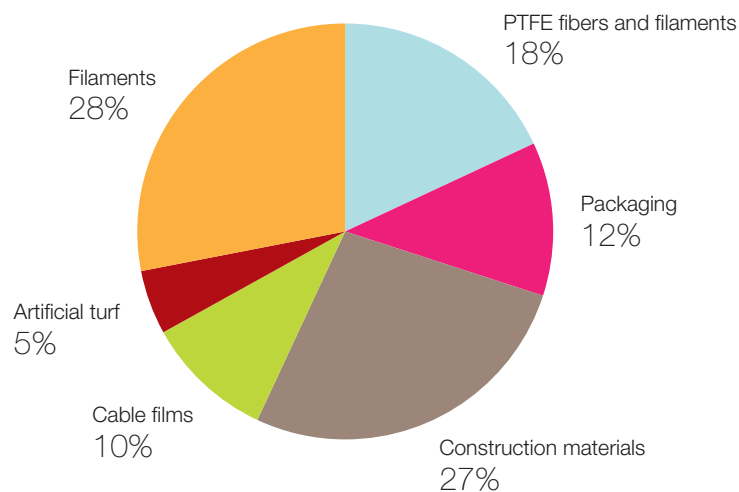
Another strategic milestone for the Lenzing Group was the entry into production of precursor for carbon fiber production. Comprehensive agreements with SGL Carbon AG of Wiesbaden (Germany) and Kelheim Fibres GmbH were concluded. The new joint venture, European Precursor GmbH (EPG), will start the production of pre-

cursor for carbon fiber production from the middle of 2008 at the Kelheim site. Up to EUR 50 mill. will be invested in capacity expansion in the medium term. This is expected to contribute to the sales of Lenzing Plastics in the double-digit million euro range by the end of the decade.

The high strength of carbon fibers (four times higher than that of the best steel alloys) makes them the promising construction material of the future. The use of carbon fibers in the aviation, automotive and shipping industries will rapidly increase in the future. They save considerable amounts of weight, which in turn is the basis of fuel savings in cars and airplanes. Market analyses

## Segment Plastics

Sales by market segment





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therefore expect annual growth rates of about 10% for the coming years. The new generation of airplanes, such as Airbus A380, Boeing 787 and Airbus A350 is an important example. The carbon fiber demand of the wind power industry for their new rotor blades spanning almost 200 feet is considerable as well. Yacht construction and sports equipment are further fields of application.

#### Outlook Business Unit Plastics

The product portfolio of Lenzing Plastics was completely redesigned and broadened. The focus now is on high-tech polymer

fibers, special monofilaments and products for the construction industry. The new US production site will help buffer US-dollar/euro exchange rate fluctuations and the new site in the Czech Republic will provide flexibility for the production of wage-intensive products.

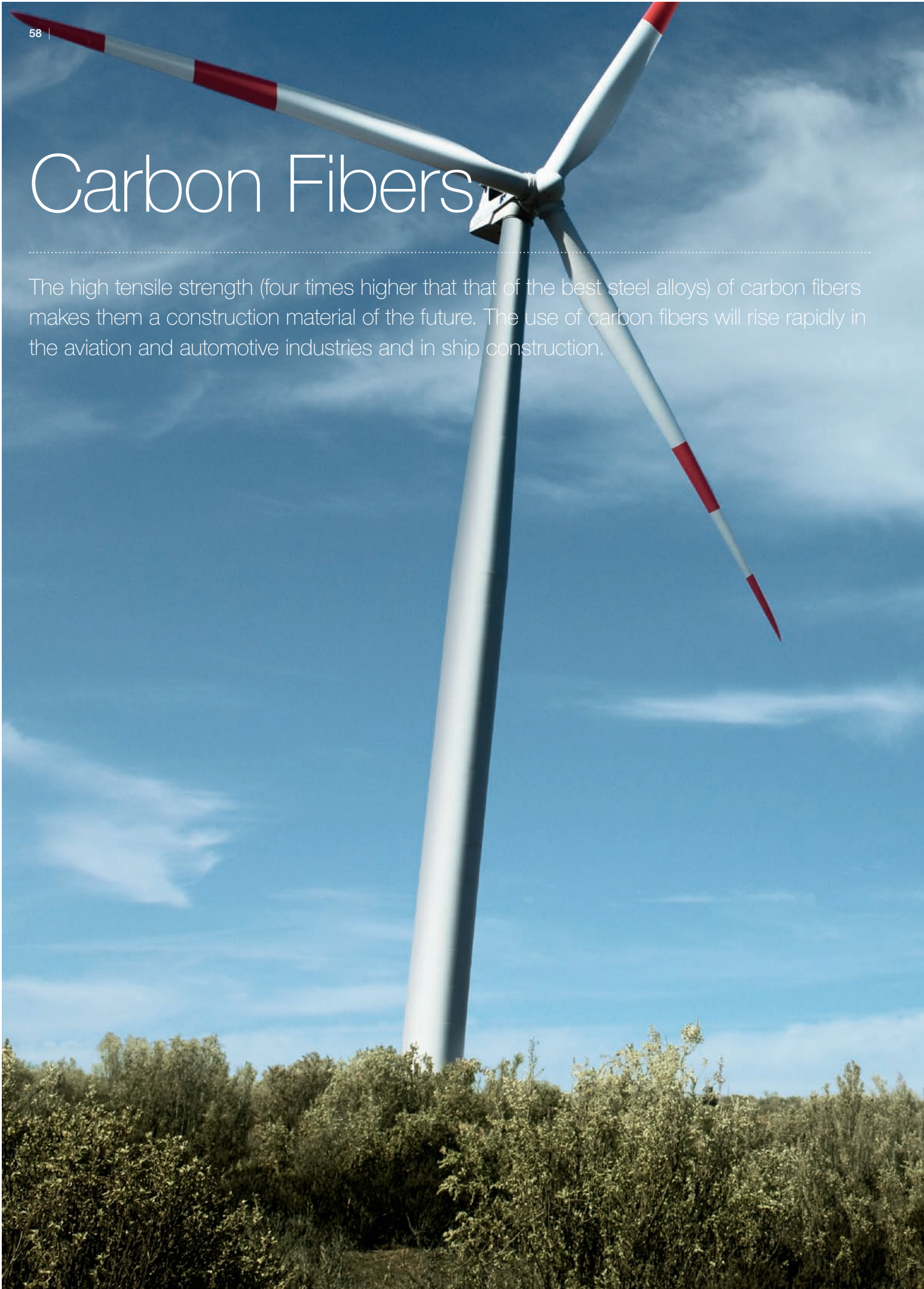
There will be a considerable leap in the 2008 sales and results of Lenzing Plastics, due to the full consolidation of the newly acquired companies. Organic growth will be consistently pursued with fields Lenzing Jacketing, Lenzing Grass (artificial turf) and Textile Architecture. All in all, the growth of Business Unit Plastics will continue to expand dynamically in 2008 as well.

Business Unit Plastics pursues a consistent expansion strategy and the four acquisitions of 2007 provided significant dynamic impulse, elevating Lenzing Plastics to a new plane of industrial activity.

# Carbon Fibers

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The high tensile strength (four times higher than that of the best steel alloys) of carbon fibers makes them a construction material of the future. The use of carbon fibers will rise rapidly in the aviation and automotive industries and in ship construction.







# Management Report

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## Segment Engineering

Business Unit Engineering provides products and services in its segments engineering and contracting, mechanical construction and industrial services, and automation and mechatronics. Lenzing Engineering is a global provider, in particular in segment engineering and contracting.

Segment Engineering increased overall sales to EUR 119.0 mill. (2006: 103.6 mill.), enabled by a positive business environment and high order volumes from the Lenzing Group itself. Sales to external customers came to EUR 68.7 mill. (2006: EUR 59.0 mill.). Segment EBIT declined to EUR 6.2 mill (2006: EUR 10.1 mill.) as a result of cautious valuation of risks from pending business transactions and the retreat from marking systems. The average number of staff was 550.

### Engineering and Contracting

Segment engineering and contracting manages product groups fiber and environmental technology, pulp technology, filtration and separation, and marking systems.

This segment of Lenzing Engineering offers engineering and project services, as well as plant engineering and special purpose machine construction for industrial customers.

Technological expertise and decades of experience in the production of dissolving pulp and paper pulp were the basis for successful projects in pulp technology. Major projects in Canada and South-eastern Europe were concluded with gratifying results. Fiber technology succeeded due to the capacity expansion of the Lenzing Group and external orders from Europe and Asia. The acknowl-

edged technology of product group environmental technology for reducing and eliminating waste gas of industrial and communal plants provided the segment with attractive projects.

New developments and the extension of its product range enabled excellent results in product group filtration and separation.

Product group marking systems was discontinued as part of Lenzing Engineering's focus policy. Open contractual commitments were duly completed.

### Mechanical construction and industrial services

Classic machine and systems construction is the domain of this segment which continues to enhance its position as a contract manufacturer of demanding applications and as a provider of high-quality industrial maintenance and repair services.

Product group sheet metal technology started its new production center at Lenzing in the middle of 2007. A staff of 40 operates the plant with a production area of about 49,000 sq.ft. in two shifts and partly even three shifts.

Flat-bed laser machines, laser cutting and punching combinations, folding machines and robot-driven welding systems form the basis of superior production quality.

Sheet metal technology provides customers from a variety of industries, such as manufacturing systems and plant engineering, environmental technology as well as automotive and medical technology, with high-quality sheet metal products.



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## Automation and mechatronics

This product group achieved considerable sales and results in electrotechnology, measurement and control technology and as an expert in the automation of production systems.

Product group electronics manufactures electronic and electro-mechanical devices to customer specifications with medical devices as an essential element of the product portfolio.

The segment, moreover, supplies fully automated PCB equipping (SMT/THT) and optional manual equipping of electronic components through its joint venture with LENO Electronics.

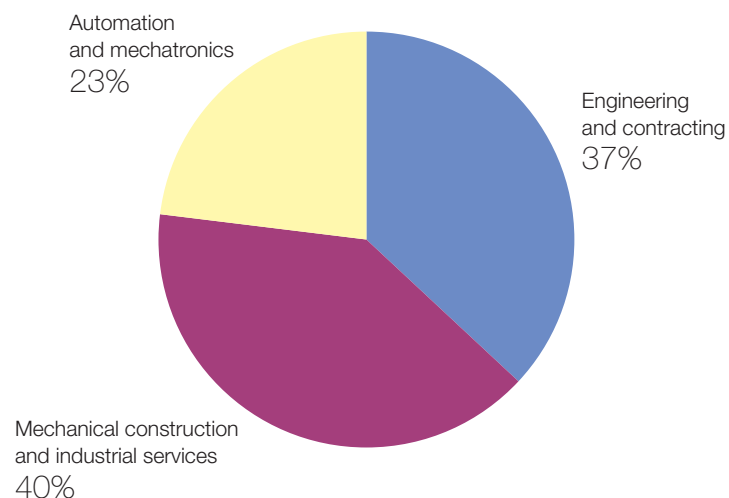
## Outlook Business Unit Engineering

Good order bookings and strong demand for all product groups at the beginning of 2008 are the basis for a good development of sales and results. Consistent innovation and enhancement of its product portfolio will secure the expected expansion of 2008.

The share of external customers not from the Lenzing site will remain at its high level in 2008 and is expected to contribute to more than 60% of total sales.

# Engineering and Contracting

## Sales distribution



# Management Report

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## Segment Paper

Lenzing Paper is a niche provider of high-quality envelope paper, recycled paper and poster paper. Increased shipments and recovering prices raised sales to EUR 62.0 mill. (2006: EUR 57.9 mill.). With minus EUR 0.7 mill. segment EBIT remained at approximately the level of the preceding business year (2006: minus EUR 0.6 mill.).

The business year brought a significant recovery of demand after a dry spell of several years, enabling price increases in all segments. In the course of the year conditions deteriorated again, among other factors because of rising raw material prices and imports into Europe from the dollar area.

Lenzing Paper implemented several price increases for envelope paper. The discussion on global warming improved demand for Lenzing recycled paper. Poster paper increased quantity and market share, partly due to the retirement of a competitor. With production running at full capacity, Lenzing Paper realized a new production record of 83,000 tons (2006: 79,000 tons).

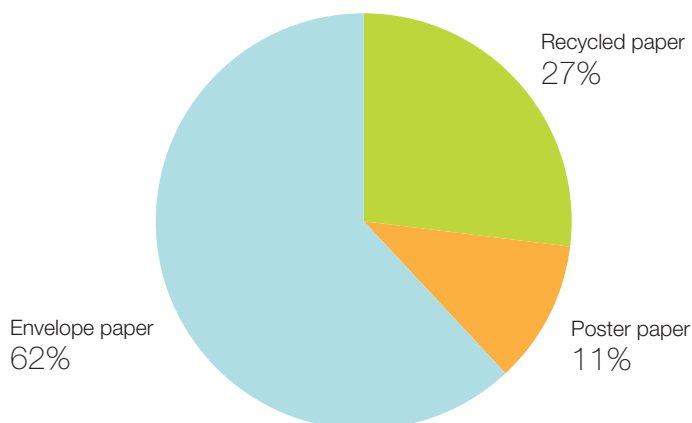
Good volume demand was accompanied by considerable increases in the cost of pulp, recovered paper, starch, as well as energy, staff and logistics. These could be passed on to the market only with a certain delay, thereby depressing results despite good volume business.

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## Segment Paper

### Sales by paper type

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## Risk Report

### Risik management

The Lenzing AG management board and its corporate centers carry out extensive coordination and controlling operations for the operating units of the Lenzing Group, the Business Units, within the framework of a comprehensive internal management and monitoring system including all sites. Timely detection and evaluation of operative and strategic risks and the formulation of countermeasures are essential parts of the leadership activities of these entities. A standardized and group-wide reporting system on a monthly basis and the continuous updating of operative and strategic plans form the basis of this approach.

Lenzing's risk management system covers the whole company and provides central coordination and monitoring of group-wide risk management processes. Central risk management collects and assesses essential risks threatening the existence of the company and communicates its findings directly to the management board and management. This includes anticipatory analyses of potential or near events as well. Another task is the active mitigation of risks and the implementation of adequate measures in cooperation with concerned business entities and insurers.

The main objective of company-wide risk management is to create increased risk awareness and to integrate subsequent results into operational activities. Another objective is the utilization of opportunities that accompany risks and to balance risk and opportunity for the company.

Risk management is embedded in strategic processes, in order to be able to identify opportunities and risks in good time.

Lenzing in-house market research globally monitors and analyzes strategic market risks. Moreover, risks are evaluated jointly with the business unit heads at annual medium-term planning sessions.

Emergency management: Plans for the management of emergencies are supplemented by an emergency communication concept which structures internal and external paths of communication for

the event of emergencies or process upsets. Real life scenarios based on organizational workflows form part of on site training.

### General risk

The global Lenzing Group is exposed to a multitude of general macroeconomic risks. The development of product price and product quantity for Business Units Textile Fibers and Plastics, and to a lesser degree, for Nonwoven Fibers, is cyclical. It depends on global and regional economic conditions. The positive role of the dynamic development in Asia has recently been growing. Lenzing strives to minimize associated risks by increasing its international market presence and its product diversity.

### Special risks

Lenzing fibers compete with cotton and synthetics on some markets. Their price development can affect Lenzing fiber sales and quantities. Lenzing counters this risk by continuously increasing the portfolio share of specialty products with lower substitution potential.

### Purchasing risk

Lenzing purchases large amounts of raw materials (wood, pulp, chemicals, polymers) and energy. Fiber and plastics production and their business margins are subject to risks of raw material availability and pricing. Lenzing counters these risks by carefully selecting its suppliers according to specified criteria, such as price, reliability, and quality, as well as by stable partnerships, partly with contractual commitments covering several years. Lenzing's energy strategy is directed at maintaining a maximum degree of self-sufficiency combined with hedging against price volatility.

# Management Report

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## Environmental risk

The production of cellulose fibers is a complex series of chemical and physical processes which entail environmental risks. These are well controlled by dedicated, proactive and sustainable management of the environment, closed production cycles and continuous monitoring of emissions.

## Risk of natural disasters

Immediate mitigation of the impact of inclement weather (hurricanes, tornadoes, flooding and others) is almost impossible. Exposed production sites are covered by corresponding insurance policies, as and if available on the market, to cover part of potential damage.

## Sales risk

Lenzing is a niche player in all its fields of activity. Sales loss caused by major clients constitutes a risk which Lenzing counters by its global presence and the continuous broadening of its client base, its sales segments and its sales markets.

## Exchange rate risk

International business entails the risk of adverse exchange rate fluctuations of the euro versus the US dollar and the British pound. This risk is largely contained by prospective hedging of the expected net exposure on an annual basis. Please refer to note 35.4 for details.

## Competitive risk

Lenzing is a technology leader and therefore exposed to the risk of losing its fiber market position due to imitators or new technologies developed by its competitors. Lenzing contains this risk by above-average research and development efforts, a high product innovation rate and active technology screening.

## Financial instruments

Clearly documented guidelines have been developed and implemented by the board of management on how to handle financial risks. These guidelines are continuously monitored. Lenzing employs derivatives to protect itself against exchange rate risks associated with business operations, mainly resulting from sales in US dollars. These derivatives are forward rate agreements and foreign exchange options. The objective of exchange rate risk management is to protect payment flow from business operations against adverse exchange rate fluctuations. Hedging activity as well as the correlation between risk and hedging instrument are continuously monitored and reported. There is active exchange of information between treasury and business units involved.

The risk of loss with regard to these instruments is small, taking into account the financial strength of the contractual partners.

Allowances are made for identifiable risk of loss related to primary financial instruments, such as loans, securities, receivables and cash. The carrying amounts of these financial instruments represent the maximum risk entailed. In addition, the Lenzing Group accepted liability for associates (see note 39 for details). This liability is of a subsidiary nature as it becomes effective only if these companies fail to meet their payment obligations. The risk is therefore considered to be small.



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## Balance Sheet Structure and Liquidity

The risk of changes in the market value of primary financial instruments and their derivatives is rated small. To the extent that this risk is related to exchange rate risks it is covered by foreign currency forward contracts and options. No major fluctuations until maturity are to be expected for short-term financial instruments either. 34% of the company's long-term liabilities are linked to variable interest rates.

Liquidity risk, namely the risk of insufficient funds for meeting obligations resulting from primary financial instruments and their derivatives, does not exist. Derivatives are exclusively employed for hedging. The resulting obligations are therefore covered by the hedged business operations. Obligations resulting from primary financial instruments are covered by liquid funds and if needed by internal financing.

Cash flow risks related to financial instruments arise from fluctuations in their respective payment streams. These are essentially limited to variable interest rate liabilities. Corresponding hedges ensure that exchange rate fluctuations will not affect payment streams. Translation risks are covered on an individual basis.

The Lenzing Group meets its payment obligations timely. Current payments are covered by cash flow from operations. Liquidity and equity of the company are sound, as is the balance structure. Moreover, various banks provide adequate credit lines ready for usage any time.

As at 31 December 2007 the management board of Lenzing AG in its capacity as the management of the Lenzing Group is not aware of any risks that could endanger the continued existence of the Group during business period 2008.

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Risk management is embedded in strategic processes, in order to be able to identify opportunities and risks in good time.

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# Management Report

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## Research and Development

The Lenzing Group is the global leader in the development of current cellulose fiber technology. The innovations of the company have been the pacemaker of the whole industry for decades and continue to set standards in cellulose fiber application and pulp technology. This success is based on the concentration of research and development facilities at the Lenzing site, its internationally recognized team of experts and its comprehensive facilities for testing, measuring, analysis and trials. Lenzing, moreover, closely cooperates with external research institutes and universities.

Expenses for research and development (calculated by the Frascati method) were EUR 18.3 mill. (2006: EUR 16.1 mill.).

The focus was on production research in pulp and viscose fibers. New developments in oxygen bleaching were implemented in pulp production, resulting in lower input of chemicals and higher yields. Another area of activity was the development of technology for the utilization of hemicelluloses.

The K1 center "Bio-based materials research and process technologies" received approval for seven more years, as part of the COMET support program of the FFG\*. Research on pulp production, utilization of by-products and process simulation will be conducted at the Lenzing site.

The focus in fibers was on the continuous development of new uses for fibers and special applications. The reorganization of 2006, which had integrated development activities into the business units, has proven to be an unqualified success.

The concept of Botanic Fibers was substantiated jointly with Business Unit Textile Fibers. It will be of major importance for the global positioning of Lenzing fibers.

Business year 2008 will focus on the further optimization of the pulp process in view of the continuously growing requirements from fiber production and the development of new fiber applications for Business Units Textile Fibers and Nonwoven Fibers.

Strong customer focus in development projects and their fast implementation were very successful and received further enhancement with Lenzing Plastics. Established production technology was complemented by new processes to continue to provide innovative solutions for existing and new markets. The focus was on new function films for the construction industry, significantly improved yarns for artificial turf and PTFE yarns for medical applications. Intensive trials and tests were conducted with high-performance plastics for filaments which will enhance the future product portfolio of Lenzing Plastics.

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\* Österreichische Forschungsförderungsgesellschaft mbH (Austrian Research Promotion Agency)

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## Environment and Sustainability

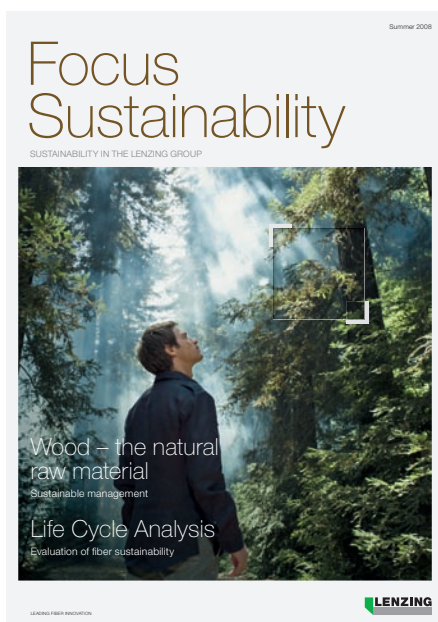
### Sustainability in the Lenzing Group

The Lenzing Group is a global company and committed to the principles of sustainable development. This means continuous care for the three pillars of sustainable action – ecology, economy and social responsibility. Assuming responsibility for our and for future generations is the essential element of our corporate philosophy and a decisive success factor of the Group.

All sites of the Lenzing Group follow this strategy and consider impact on the environment in all decisions. Accordingly, ecological sustainability for Lenzing means: conscientiously conserving resources, maintaining high standards in environmental soundness and energy efficiency, using the renewable resource wood, innovative technology and high investment in environmental protection. Our environmental policy is foresighted and enables us to detect new trends in ecology to design adequate new strategies.

The principles of sustainability have become practiced reality in Human Resources as well. Social responsibility and a people-friendly work environment are essential elements of business management and therefore corporate culture. Our people form the foundation of our success. As a global player we therefore offer everyone the opportunity to self-development and interesting and demanding tasks in a just and secure work environment with exciting challenges.

The Lenzing Principles were developed in 2006 as a new and future oriented index of guidelines which defines the company values as a binding code of conduct for everyday work life. These principles were communicated to all our staff members by a variety of measures in 2007. This constitutes an essential contribution to securing and further improving work climate and a support to our members of staff in their daily work in a work environment characterized by ever growing challenges.



### Sustainability in the Lenzing Group

Our brochure “Sustainability in the Lenzing Group“ provides comprehensive information on sustainability, current environmental topics, general environmental aspects of production and environmental key figures. Work on the latest issue started in 2007. The new brochure will be published in the first half of 2008. It can be downloaded or ordered at [www.lenzing.com](http://www.lenzing.com).

# Management Report

The development of management systems has been a continuous process of many years in the Lenzing Group, starting at the Lenzing site with the implementation of a quality management system in 1995 and spreading out to the other sites. Experiences made were incorporated in 2003 in an environmental management sys-

tem (ISO 14001) that was gradually implemented throughout the Group. The positive experience with existing management systems contributed to the selection of a uniform certification system (OHSAS 18001) for all sites. The implementation at the still non-certified sites is being planned.

## Certification in the Lenzing Group

	ISO 9001	ISO 14001	OHSAS 18001
Lenzing	✓	✓	✓
Heiligenkreuz	✓	✓	✓
Grimsby	✓	✓	✓
Mobile	✓	projected	projected
Purwakarta	✓	✓	✓
Nanjing	projected	projected	projected



## Life cycle assessment of Lenzing Fibers

### The evaluation of fiber sustainability

A comprehensive evaluation of fiber sustainability with regard to consumption of non-renewable resources, emission of greenhouse gases, impact on human well-being and impairment of ecosystems requires a holistic approach, in other words the compilation of a life cycle assessment.

Using standardized methodology, a life cycle assessment for Lenzing Viscose®, Lenzing Modal® and TENCEL® in direct comparison with cotton, polyester and propylene fibers was carried out in collaboration with Martin Patel and Li Shen of the Copernicus Institute of Utrecht University. Lenzing provided complete material and energy inventories for pulp and for cellulose fibers produced with different technologies. Cotton data for US and Chinese production (representing 43% of the cotton market), polyester, polypropylene, process chemicals and energy was obtained from current and reliable sources.

The cradle-to-factory-gate concept of life cycle assessment covers all material flows, processes and transport operations required for the production of a particular fiber. Due the multitude and diversity of technologies and products employed in the chain of textile value creation, the production, use and maintenance of textile products themselves could not be included in the study. Therefore the scope of this study is limited to product 'fiber', only the evaluation of the consumption of non-renewable resources and the carbon footprint includes aspects of disposal.

The evaluation of environmental impact was conducted according to the CML\* method, developed at Leiden University considering the following indicators:

- GWP (global warming potential)
- Abiotic depletion (consumption of non-renewable resources, minerals, fossil fuels)
- Human toxicity (impact on human health)
- Fresh water ecotoxicity (water pollution)
- Terrestrial ecotoxicity (soil pollution)
- Photochemical oxidation (air pollution, summer smog)
- Acidification (air, water and soil)
- Eutrophication

The results of this evaluation are equivalent values. They permit relative comparisons between fibers but provide no information on the absolute relevance of a particular indicator for fibers. Therefore the equivalent value of a fiber has been related to total global impact. This shows that the relative contributions of all fibers with regard to air pollution or human health are negligible, whereas contributions to water and soil pollution or the consumption of non-renewable resources are relevant.

Viscose and modal fibers produced at the Lenzing site were found to be particularly sustainable. This is a result of the integrated production of pulp, energy and fibers at the Lenzing site and represents the best available technology for the whole fiber industry. The framework conditions for viscose fiber production in Asia are less favorable but still significantly superior to those of cotton.

\*) an internationally recognized method for evaluating life cycle impact developed by the Centrum voor Milieukunde of Leiden University (Netherlands)





The good result of TENCEL® is due to the lyocell process which has received multiple awards for its ecological soundness. The current 2007 value for TENCEL® 2007 is based on a 30% biomass share in energy production and will be reduced by half again in 2012 by the planned changeover to thermal waste utilization.

The study shows that the impact of Lenzing fibers on the environment is many times lower than that of cotton. The common opinion that the natural fiber cotton is more ecological than industrially produced cellulose fibers is not supported by scientific evidence.

## Environmental protection

As in previous years, environmental protection at the Lenzing site was characterized by managing the production increase in pulp and fiber production. The organic growth of the biggest production site of the Lenzing Group was well absorbed by increasing the performance of existing environmental protection systems.

The unique anaerobic biological waste water purification plant has been in operation since 2004. The plant was extended by a fourth anaerobic and second sulfur reactor, both in operation since November 2007.

A new zinc recovery system was started in fiber production in July 2007. Lenzing takes another step in the innovative closing of production cycles. Zinc sulfide is precipitated from a partial stream of fiber production waste water before it enters anaerobic purification. This sulfide sludge is converted into zinc sulfate in a recovery plant using an extraction process. The resulting product is reintroduced into the spin bath production cycle.

Anaerobic sulfate removal and zinc recovery are two examples of the innovative ways Lenzing takes in closing viscose fiber production cycles.

The optimization of environmental protection systems and the extension of sludge dewatering facilities were other steps taken in managing the rising quantity of sludge.

The activities of Prüfstelle Umweltanalytik Lenzing (UAL), Lenzing's environmental test laboratory, further consolidated its position. The re-accreditation audit in June 2007 was concluded with a very good result. The fulfilment of these standards guarantees a high level of laboratory performance along with a corresponding gain in competence. External clients are offered a variety of services in environmental analytics, such as the analysis of water, waste water, solid waste and eco-toxicity studies.

## SPV – comprehensive environmental activities

Numerous environmental measures were implemented at the site in Purwakarta (Indonesia). The construction of the second stage of the waste water purification plant meets the increase in fiber production. The super-sorbon plant for the recovery of carbon disulfide from fiber production waste gas is the first of its kind in Asia and went into operation in 2007. The energy production has been fully converted from heavy fuel oil to cleaner natural gas.

## The Heiligenkreuz site

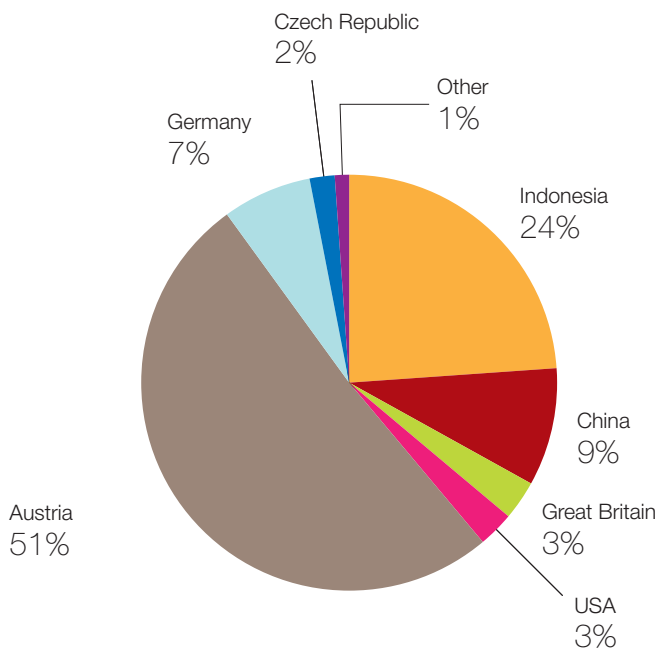
For the purpose of environmentally sound production at all sites, Lenzing Fibres GmbH at Heiligenkreuz now receives its process heat from biomass utilization and saves up to 30% of fossil energy in the process.

# Management Report

## Human Resources

### Staff by country

Lenzing Group Headcount  
31/12/2007: 6,043



Motivated staff and competent teams are decisive components of the success of the Lenzing Group. The sustainable progress of our company ultimately depends on every single staff member. A series of initiatives proactively promotes its employees and fosters a good work climate. 2007 was the year of implementing the Lenzing Principles and of developing a common understanding of company values. The goal was to develop a common framework of shared values and a common self-image, together with and for each and every of the more than 6,000 people of the Lenzing Group.

People from all across the globe and from a variety of cultural backgrounds come together at Lenzing as a result of the company's rapid growth and globalization. This requires practiced mutual respect and tolerance in day-to-day work life. All this was taken into account when defining corporate guidelines, a process which had started in 2006 and resulted in a binding code of conduct. A variety of measures, such as numerous discussion forums and workshops with heads of Business Units and senior management communicated the Lenzing Principles throughout the Group in 2007. Moreover, every member of staff received an easy-to-read copy of the Lenzing Principles. These guidelines are mandatory for all of us and contain a clear commitment to sustainable management, a work ethic based on global corporate governance, the promotion of individual assets, self-responsible action, and creative thinking beyond work routine. Lenzing is committed to these Principles and moreover to open discourse in every day work, as well as economic, environmental and social responsibility.

As at 31 December 2007 the Lenzing Group employed 6,043 people (31 December 2006: 5,044).

The biggest site, at Lenzing itself, with Lenzing AG and its subsidiaries Lenzing Technik and Lenzing Plastics, employed a total of 3,217 (including contract workers) at the balance sheet date (2006: 3,142). 145 of these were trainees (2006: 141) which highlights Lenzing's commitment to actively foster qualified future employees. Another twenty trainees receive vocational training at the Heiligenkreuz (Austria) and Munderkingen (Germany) sites.

The increase in staff by almost a thousand was largely the result of the start of production at the viscose fiber plant in Nanjing (China) and the acquisitions by segment Plastics in Germany, the Czech Republic and the USA. The new plant in Nanjing has hired almost 330 additional people since start-up and the new plastics companies added 600 more to the staff of the Group.

The global development program that had been initiated in 2006 was continued with sessions taking place in China, attended by members of staff from all Asian sites as well as from Europe.

The educational center at Lenzing continued its numerous activities for promoting the abilities and skills of Lenzing staff members.

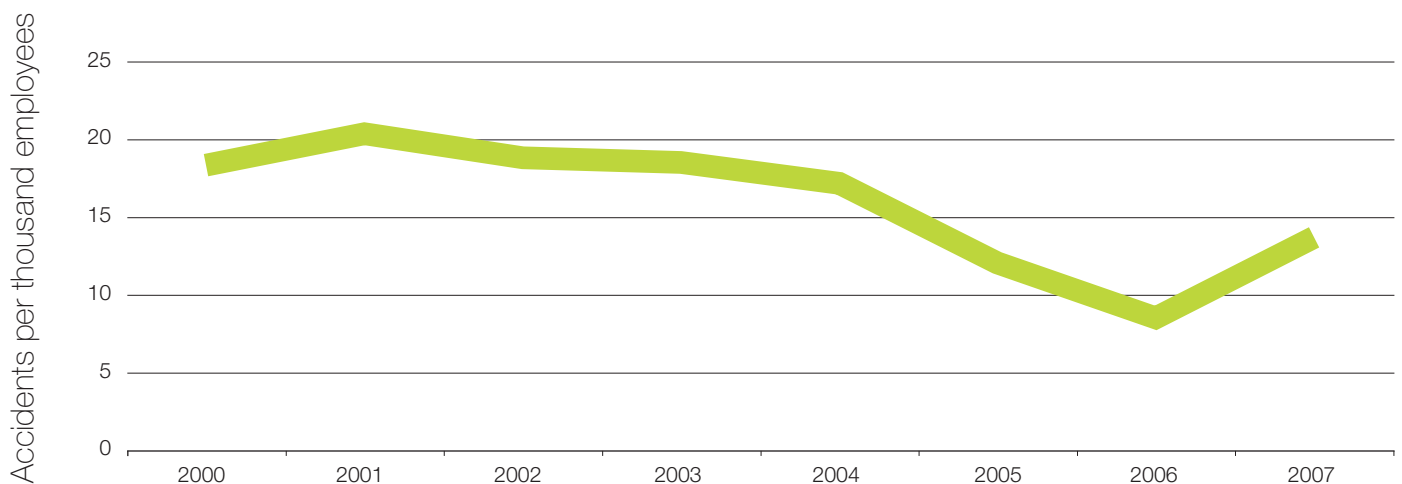
## Safety

The 2007 per-thousand accident rate was slightly higher than the all-time low of 2006. This was due to incidents occurring at the start-up of new facilities, the (still) higher rates at the new companies acquired during the year and the higher ratio of fitters and leased staff considered by statistics as well.

The initiative "Top in Safety" has been running since 2004. Its motto for 2007 was "Healthy and safe through self-responsibility". Training and workshops promoted individual risk awareness and increased self-responsibility.

The newly integrated companies received special support for the implementation of safety management according to OHSAS 18001. Knowledge management processes efficiently transferred Lenzing Group experience which already resulted in first decline of injuries in the second half of the year.

## Development of injury rates





# Management Report

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Production facility safety was further increased by the consistent elimination of residual operative risks and technical improvements in the prevention of fires and explosions, as well as emission control.

## Health

The health management system implemented in recent years was consistently applied throughout the business year. A special focus was put on how to handle psycho-social crises of staff members. A practical handbook was compiled as a guideline for senior management, and findings and recommended procedures were

communicated and practiced at several workshops. Immediate and direct support is provided by a social worker. Individual stress tests and seminars building on the findings were offered.

Existing offers, such as health days, spinal exercise programs, fitness classes, non-smoker seminars and ergonomics counselling were expanded. At Lenzing a special health promotion program for young adults was started in collaboration with Lenzing trainees and regional health insurers.

A new health center at the Lenzing site has taken over responsibility for the walk-in clinic and matters of work medicine as of 1 January 2008 on the basis of an agreement with the IBG Institute for Human Ecology Management GmbH.

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## Corporate Communications

A global company with a strong commitment to local responsibility at numerous production sites cannot exist without modern communication and information processes. The communication policy of the Lenzing Group is defined by continuous and transparent external communication with all target groups, interest groups and stakeholders, as well as open internal communication with all members of staff.

Corporate Communications as a central function coordinates all communication processes on the group level and is responsible for operative communication with investors and the general public.

### Investor Relations

The Lenzing share is quoted at the Standard Market Continuous of the Vienna stock exchange and at over-the-counter markets of some European stock exchanges.

The common stock of Lenzing AG is divided into 3,675,000 individual and equal share certificates. Each share carries equal rights and obligations and entitles to one vote at the shareholders' meetings. All shares are fully paid.

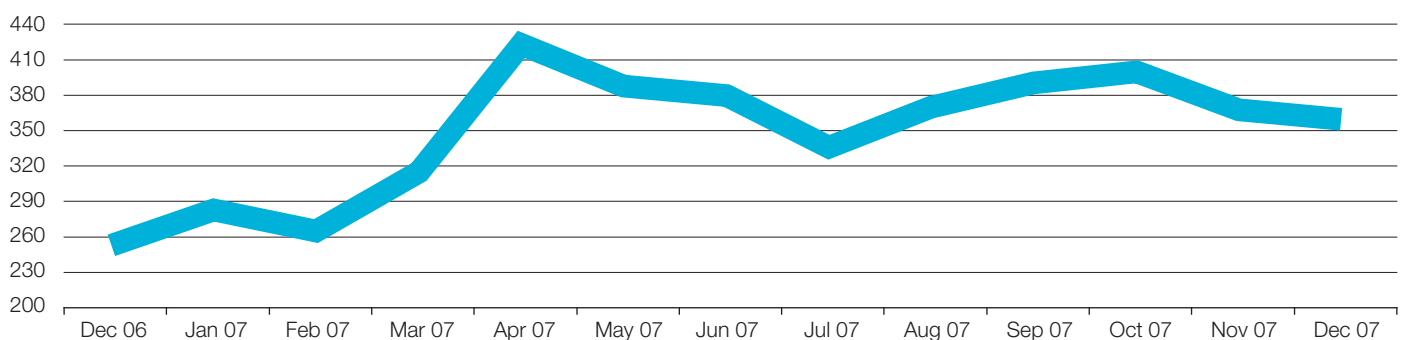
B & C Holding GmbH, Vienna, the majority shareholder with a share of more than 75% is an Austrian financial holding company with investments in a variety of sectors.

No further statements according to section 243a of Austrian company law (UGB) are required.

The Lenzing share has been listed on the VÖNIX Nachhaltigkeitsindex since 2005. VÖNIX (VBV-Österreichischer Nachhaltigkeitsindex) is an Austrian sustainability index of quoted Austrian companies with lead performance in social and ecological issues.

2007 has been another successful year for the Lenzing share and its price continued to rise. Good results, as well as market rumors

## The Lenzing share price in EUR



# Management Report

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concerning a change in ownership were the cause of this development. The share price at 28 December 2007 was EUR 359.97, corresponding to a rise of 42% over the previous close of 2006.

Lenzing provided its shareholders with regular and comprehensive information by regular press releases, detailed Letters to the Shareholders and by individual discussions. The management board held numerous talks with institutional investors and analysts in the course of the reporting year. Berenberg Bank Germany has added the Lenzing share to its list of covered companies.

## Public Relations

A central task of Corporate Communications as defined by corporate communication policy is to provide comprehensive information of the interested public and Lenzing's staff on business development, projects and relevant activities. Press releases, numerous press meetings and talks with journalists provided the general public with information.

Along with the start-up of the new plant in Nanjing (China) Lenzing in September 2007 organized a press trip to China and Indonesia,

providing coverage opportunity of the inauguration ceremony and tours of the plants in Nanjing and Purwakarta.

In-house and customer magazines, newsletters and a regular TV feature on local television in the Lenzing region were other means of communication.

Regional information is provided by the staff magazine The Lenzinger.

TV magazine Lenzing Aktuell was broadcast by local TV station Bezirks TV in 2007 as well. Ten features presented news, background information and current events from the world of Lenzing.

A number of events were organized, such as the decennial of the Heiligenkreuz site, the celebration of six million produced tons of fibers at the biggest site, Lenzing, and Lenzing Open House.

Numerous appearances at fairs again provided an interested international audience with the opportunity of acquainting themselves with the Group's products and innovations, such as at the Texworld (USA), Intertextile, Hometextile (Shanghai), Expofil (Paris) ISPO (Munich) and many others.



## Lenzing Inside

The bilingual magazine Lenzing Inside provides staff at all production sites with international developments and news twice a year. This magazine is also distributed to Lenzing customers world-wide.

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## Outlook Lenzing Group

Global economic developments for 2008 point to a general weakening, set in motion by the unfavorable trend of the US economy. This will affect the very positive recent developments in the emerging markets as well. The development of domestic demand in these markets can be expected to continue, due to the general rise in prosperity over the past years. A short-term weakening, but no general slump is to be expected for Europe, therefore the scenario of a global recession is rather unlikely, as seen from today's perspective.

After fiber boom year 2007 and a good first quarter 2008, the new business year is expected to show a weakening of demand for man-made cellulose fibers. The second main business, plastics, can expect more or less stable demand in its core markets, although a slowdown of construction activity may point to a slight decline in sales.

The Lenzing Group will continue the ambitious expansion of cellulose fibers throughout 2008 and beyond with the most comprehensive investment program in the history of the company. Irrespective of short-term fluctuations, demand for high-quality cellulose fibers is expected to grow continuously. Lenzing as the world market leader is set not just to follow that trend but to actively shape it by continuously developing new applications for cellulose fibers and by expanding production capacity.

Segment Plastics will again provide impulse for expansion in 2008. Strain could result from a further weakening of the US dollar and from a further rise in raw material prices.

Due to the full consolidation of the companies acquired in 2007 and the organic growth of segment Fibers a sales increase for 2008 is expected.

## Events after the Balance Sheet Date

As of 1 February 2008, Karl Schmutzer returned his mandate as Chairman of the Supervisory Board.

As of 4 March, a 60% share of Lenzing Papier GmbH (segment Paper), and therefore the management control of this business

field, were transferred to a group of investors around main investor Ernst Brunbauer of Gmunden (Austria). The remaining 40% will be kept by Lenzing AG. The new majority owner will continue to operate the company at its Lenzing site as an independent company. The consolidated statements present Paper as held for sale.



# Consolidated Financial Statements

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# Consolidated Financial Statements

## Balance Sheet

Assets		31/12/2007	31/12/2006
	Note	EUR '000	EUR '000
Intangible assets	(19)	85,897	10,919
Property, plant and equipment	(20)	698,769	625,977
Investments in associates	(21)	12,552	9,774
Other financial assets	(22)	12,380	17,796
Deferred taxes	(33)	864	1,441
Other non-current assets	(23)	2,700	3,053
<b>Non-current assets</b>		<b>813,162</b>	<b>668,960</b>
Inventories	(24)	163,967	123,906
Trade receivables	(25)	135,797	119,435
Current taxes		2,966	6,742
Other receivables and assets	(27)	46,618	45,686
Investments	(28)	8,164	8,199
Cash and cash equivalents	(36)	110,936	88,807
		<b>468,448</b>	<b>392,775</b>
Assets classified as held for sale	(5)	26,974	0
<b>Current assets</b>		<b>495,422</b>	<b>392,775</b>
		<b>1,308,584</b>	<b>1,061,735</b>

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Equity and Liabilities		31/12/2007	31/12/2006
	Note	EUR '000	EUR '000
Common stock		26,717	26,717
Capital reserves		63,600	63,600
Currency translation reserves		(20,644)	(2,686)
Retained earnings and other reserves		474,676	402,657
<b>Share of shareholders of Lenzing AG</b>		<b>544,349</b>	<b>490,288</b>
Minority interests		17,882	25,728
<b>Equity</b>	<b>(29)</b>	<b>562,231</b>	<b>516,016</b>
<b>Government grants</b>	<b>(30)</b>	<b>30,540</b>	<b>33,953</b>
Bank loans	(31)	275,316	173,845
Other loans	(31)	22,228	40,608
Trade payables		579	579
Deferred taxes	(33)	25,918	8,094
Provisions	(34)	90,143	82,445
Other liabilities		2,387	3,339
<b>Non-current liabilities</b>		<b>416,571</b>	<b>308,910</b>
Bank loans and overdrafts	(31)	23,561	17,173
Other loans	(31)	6,448	11,246
Trade payables		100,377	71,879
Provisions for current income tax		17,341	14,520
Other provisions	(34)	83,374	61,126
Other liabilities		47,884	26,912
		<b>278,985</b>	<b>202,856</b>
Liabilities directly associated with the assets classified as held for sale	(5)	20,257	0
<b>Current liabilities</b>		<b>299,242</b>	<b>202,856</b>
		<b>1,308,584</b>	<b>1,061,735</b>

# Consolidated Financial Statements

## Income Statement

		2007	2006
	Note	EUR '000	EUR '000
From continuing operations			
Sales	(7)	1,260,510	1,042,619
Changes in inventories of finished goods and work in progress	(8)	13,668	(1,559)
Work performed by the Group and capitalized	(9)	27,442	27,877
Other operating income	(10)	14,590	17,650
Cost of material and purchased services		(709,755)	(592,450)
Personnel expenses	(11)	(229,259)	(201,132)
Amortization of intangible assets and depreciation of property, plant and equipment	(12)	(70,454)	(65,744)
Other operating expenses	(13)	(144,418)	(119,487)
<b>Income from operations (EBIT)</b>	<b>(14)</b>	<b>162,324</b>	<b>107,774</b>
Income from investments in associates	(15)	1,301	278
Other investment income	(16)	1,997	696
Finance costs		(14,607)	(9,508)
<b>Income before taxes (EBT)</b>		<b>151,015</b>	<b>99,240</b>
Income taxes	(17)	(32,765)	(10,394)
<b>Profit after taxes from continuing operations</b>		<b>118,250</b>	<b>88,846</b>
Operations classified as held for sale			
Loss from operations classified as held for sale	(5)	(627)	(483)
<b>Net income</b>		<b>117,623</b>	<b>88,363</b>
Attributable to shareholders of Lenzing AG		109,621	83,889
Attributable to minority shareholders	(29)	8,002	4,474
		EUR	EUR
Earnings per share	(18)		
From continuing operations and operations classified as held for sale		29,83	22,83
From continuing operations		30,00	22,96

## Cash Flow Statement

		2007	2006
	Note	EUR '000	EUR '000
Gross cash flow	(36)	203,638	146,914
Change in working capital	(36)	22,541	(3,102)
Net cash generated by operations classified as held for sale	(5)	(2,382)	2,337
<b>Operating cash flow</b>		<b>223,797</b>	<b>146,149</b>
- Acquisition of non-current assets		(265,748)	(104,441)
+ Proceeds from the disposal/repayment of non-current assets		6,628	3,192
Net cash generated by operations classified as held for sale	(5)	(1,047)	(1,216)
<b>Net cash used in investing activities</b>		<b>(260,167)</b>	<b>(102,465)</b>
+ Payments of other shareholders	(36)	1,088	5,974
- Dividends paid to shareholders	(29)	(38,541)	(31,401)
+ Receipts from financing activities	(36)	191,694	58,295
- Repayment of loans		(96,275)	(62,446)
Net cash generated by operations classified as held for sale	(5)	3,929	(1,121)
<b>Net cash used in (-)/generated by (+) financing activities</b>		<b>61,895</b>	<b>(30,699)</b>
<b>Change in cash and cash equivalents</b>		<b>25,525</b>	<b>12,985</b>
Cash and cash equivalents at the beginning of the year		88,807	77,097
Currency translation adjustment relating to cash and cash equivalents		(2,896)	(1,275)
<b>Cash and cash equivalents at the end of the year</b>	<b>(36)</b>	<b>111,436</b>	<b>88,807</b>



# Consolidated Financial Statements

## Statement of Recognized Income and Expense

		2007	2006
	Note	EUR '000	EUR '000
<b>Net income per income statement</b>		<b>117,623</b>	<b>88,363</b>
Income and expense recognized directly in equity:			
Gains/(losses) on available-for-sale investments			
taken directly to equity		(309)	(111)
transferred to profit or loss on sale		(240)	0
Gains/(losses) on cash flow hedges			
taken directly to equity		5,198	3,126
transferred to profit or loss for the period		(2,866)	2,288
Exchange differences on translation of financial statements presented in foreign currencies		(18,900)	(6,519)
Actuarial gains/(losses) on defined benefit plans			
taken directly to equity	(34)	(2,938)	(213)
Tax on items taken directly to equity		299	(1,018)
<b>Net income/(loss) recognized directly in equity</b>		<b>(19,756)</b>	<b>(2,447)</b>
<b>Total recognized income and expense for the period</b>		<b>97,867</b>	<b>85,916</b>
Attributable to			
Shareholders of Lenzing AG		90,817	83,855
Minority shareholders		7,050	2,061
		<b>97,867</b>	<b>85,916</b>

## Notes

The following Notes form an integral part of the consolidated financial statements.

### Summary of accounting policies and other explanatory notes to the consolidated financial statements as at 31 December 2007

#### Note 1. Introduction

##### Description of business operations

The Lenzing Group (“the Group”) consists of the Lenzing Aktiengesellschaft (Lenzing AG) and its subsidiaries. Lenzing AG is a public corporation under Austrian law and has its registered office at Lenzing, Austria. The majority shareholder of Lenzing AG is B & C Holding GmbH of Vienna, which in turn is a full subsidiary of B & C Privatstiftung. The Group’s main activities are the production of fiber and pulp, engineering and plastics processing. It operates production sites in Austria, China, the Czech Republic, Germany, Great Britain, Indonesia and the USA. The majority share of business field paper production was sold as of beginning of March 2008. The financial statements at hand therefore present it as operations classified as held for sale. The global sales network includes trading companies in Shanghai and Hong Kong and sales offices in Beijing, New York and Coimbatore (India).

##### Presentation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The financial statements are presented in euro (EUR) which is the functional currency of Lenzing AG and most of its subsidiaries.

The figures provided in the financial statements and in these notes are rounded to the nearest thousand (EUR ‘000), unless specified otherwise.

##### Scope of consolidation

The consolidated financial statements of the Group comprise the parent company, Lenzing AG, and its subsidiaries. They incorporate the financial statements of the individual companies as at 31 December 2007. Note 41 provides a list of the fully consolidated entities.

Subsidiaries are defined as entities whose financial and operating policies can be governed by Lenzing AG in a way that allows it to obtain economic benefit from their activities. This is assumed to be the case if the parent holds more than 50% of the voting rights of all shareholders entitled to vote.

In the reporting period major changes affected the scope of consolidation (please refer to note 4).

##### Consolidation principles

The acquisition of subsidiaries is accounted for in accordance with IFRS 3 by applying the purchase method. According to this method, on acquisition all assets acquired and liabilities assumed are measured at their fair values as at the date of acquisition. The difference between the cost of acquisition and the fair

# Consolidated Financial Statements

## Notes

values of the identifiable net assets acquired is recognized as goodwill.

Major intra-group balances, both in the balance sheet and in the income statement, which result from transactions between consolidated companies, are eliminated upon consolidation.

Differences between intra-group balances resulting from the application of different exchange rates to amounts denominated in foreign currencies are eliminated through profit and loss within either the heading "Other operating income" or the heading "Other operating expenses".

Unrealized gains arising from intra-group deliveries are eliminated if the assets concerned are still in possession of the Group at the balance sheet date.

Interests in the net assets of consolidated companies that are not attributable to Lenzing AG are shown separately as part of shareholders' equity under the heading "Minority interests".

## Note 2. Adoption of new and revised accounting standards

The Group adopts the new or revised standards and interpretations that are relevant to the Group and which are to be applied to business years starting on 1 January 2007.

In the current year, the Group has adopted IFRS 7 **Financial Instruments: Disclosures** which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendments to IAS 1 **Presentation of Financial Statements**.

The adoption of IFRS 7 and the changes to IAS 1 result in extended disclosures in these financial statements regarding the Group's financial instruments and management of capital.

The International Financial Reporting Interpretations Committee (IFRIC) has issued four interpretations which are effective for the business year presented.

These are:

- IFRIC 7 **Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies**
- IFRIC 8 **Scope of IFRS 2**
- IFRIC 9 **Reassessment of Embedded Derivatives** and
- IFRIC 10 **Interim Financial Reporting and Impairment**.

The adoption of these new or revised standards and interpretations has no effect on the accounting principles or the presentation of the balance sheet items.

The following standards and interpretations had already been issued at the time of preparation of these consolidated financial statements. Their application to business years beginning on or before 1 January 2007 was not mandatory, and the Group has not applied them early on a voluntary basis.

- IAS 23 (revised) **Borrowing costs** (effective for business years beginning on or after 1 January 2009),
- IAS 1 (revision 6 September 2007) **Presentation of Financial Statements** (effective for business years beginning on or after 1 January 2009),
- IFRS 8 **Operating Segments** (effective for business years beginning on or after 1 January 2009),
- IFRIC 11 **IFRS 2: Group and Treasury Share Transactions** (effective for business years beginning on or after 1 March 2007),
- IFRIC 12 **Service Concession Arrangements** (effective for business years beginning on or after 1 January 2008),

- IFRIC 13 **Customer Loyalty Programmes** (effective for business years beginning on or after 1 July 2008) and
- IFRIC 14 **IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** (effective for business years beginning on or after 1 January 2008).

The adoption of these standards and interpretations in future reporting periods is not expected to have any material financial impact on accounting and the consolidated financial statements of the Group.

## Note 3. Accounting policies

### Valuation principles

Intangible assets, property, plant and equipment, loans receivable by the Group, inventories, receivables and liabilities are all valued at historical cost.

Available-for-sale investments and derivative financial instruments are valued at their fair value at the reporting date.

### Foreign currency translation

Subsidiaries prepare their financial statements in their respective functional currency. The functional currency is the currency governing the business activities of the respective company.

The functional currency is the currency of the country where the respective subsidiary is located, the only exception being PT. South Pacific Viscose. The functional currency of PT. South Pacific Viscose is the US dollar.

Assets and liabilities of subsidiaries are translated from functional currency to the reporting currency using the exchange rate prevailing on the balance sheet date. Sales and other income as well as expenses are translated at the average exchange rates of the month during which the transactions occurred. These exchange rates approximate the actual rates at the date of transaction. Translation differences resulting from the use of different exchange rates are recognized in equity under a separate heading.

Fair value adjustments of acquired assets and liabilities and goodwill arising on the acquisition of foreign subsidiaries are treated as assets and liabilities of the acquired subsidiary and are therefore subject to currency translation.

Exchange rate gains or losses which result from transactions carried out by Group companies in a currency other than the functional currency are recognized in profit or loss of the reporting period. Monetary assets and liabilities of subsidiaries that are denominated in currencies other than the functional currency are translated at the middle rate, based on the buying and selling rates published by Oberbank AG, Linz, Austria, for 31 December 2007 and 2006, respectively.

Unit	Currency	Middle Rate
1	EUR/USD US Dollar	31/12/2007 1.4720
1	EUR/USD US Dollar	31/12/2006 1.3180
1	EUR/GBP GB Pound	31/12/2007 0.7345
1	EUR/GBP GB Pound	31/12/2006 0.6715
1	EUR/CZK CZ Koruna	31/12/2007 26.6050
1	EUR/CZK CZ Koruna	31/12/2006 27.5200
1	EUR/CNY Renminbi Yuan	31/12/2007 10.7460
1	EUR/CNY Renminbi Yuan	31/12/2006 10.2734
1	EUR/HKD Hong Kong Dollar	31/12/2007 11.4720
1	EUR/HKD Hong Kong Dollar	31/12/2006 10.2400

# Consolidated Financial Statements

## Notes

### Intangible assets

Intangible assets are stated at cost less any accumulated amortization at the balance sheet date. Amortization is determined on the basis of the estimated useful life of the asset, using the straight-line method. The estimated useful lives of these assets are as follows:

	Years
Licenses and other rights	
purchased	4 to 20
internally generated	5 to 15
Trademarks	indefinite
Software	4 to 5

The amortization charge for the year is shown in the income statement under the heading "Amortization of intangible assets and depreciation of property, plant and equipment".

If long lasting impairments are identified, the respective intangible assets are written down to their fair value. Where an impairment loss subsequently reverses, the intangible assets are written up to their fair value, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined by applying the systematic amortization to original cost.

Goodwill is stated at cost and is written off only if an impairment test identifies a reduction in value.

### Property, plant and equipment

Property, plant and equipment are stated at cost less any accumulated depreciation at the balance sheet date. Depreciation is determined on the basis of the estimated useful life of the asset, using the straight-line method. The estimated useful lives of these assets are as follows:

	Years
Land-use rights	30 to 50
Residential buildings	25 to 50
Office and factory buildings	15 to 50
Other buildings	20 to 33
Fiber production lines	10 to 15
Boiler stations, transformer stations, turbines	10 to 25
Other machinery and equipment	5 to 20
Vehicles	4 to 25
Office equipment and fixtures	2 to 15
IT hardware	3 to 10

If long lasting impairments are identified, the assets are written down to their fair value. Where an impairment loss subsequently reverses, the assets are written up to their attributable fair value, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined applying the normal depreciation to original cost. Major rebuilding is capitalized, whereas maintenance or repair work, as well as minor rebuilding, is recognized in profit or loss as incurred.



## Financial assets

Loans receivable are carried at cost or in the case of impairment at their lower fair value.

Securities held as fixed assets serve as partial funding for pension provision as regulated by section 14 of the Austrian Income Tax Act (öEStG). Securities consist primarily of shares in the large-scale investor fund GF 82. This fund was set up as a special fund, as regulated by section 20 of the Austrian Investment Fund Act (InvFG), and has been designated as a fund for severance and pension provisions as detailed in section 14 of the Austrian Income Tax Act. The fund's investments consist mainly of euro bonds (individual bonds and funds) and, up to a limit of 20%, of stocks (MSCI EMU-NR titles). The securities are readily available for sale. However, there is no intention to sell these within a year. The securities are therefore stated at market value. Realized gains and losses are recognized in profit or loss under the heading "Other investment income", unrealized gains and losses are recognized directly in equity.

## Investments in associates

Investments in associates are accounted for by applying the equity method. On the basis of its voting rights the Group applies the equity method to investments in four companies. These are EQUI-Fibres Beteiligungsgesellschaft mbH (EQUI) (35%) and its subsidiaries, WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H. (WWE) (25%), LKF Tekstil Boya Sanayi Ve Ticaret A.S. (LKF) (33.34%) and RVL Reststoffverwertung Lenzing GmbH (RVL) (50%). Under this method of accounting, investments in associates are initially recognized at cost. Thereafter the carrying amount of the investment is either increased by the Group's share of the associate's profit or reduced by its share of the associate's loss. Losses are only recognized to the extent that the carrying amount of the investment is written down to zero. In table "Development of fixed assets" on pages 150 and 151 these gains or losses are presented either as write-ups or as

depreciation respectively. According to IFRS 3, acquired goodwill is not normally written down except in the event of a reduction in value identified by an impairment test. If the acquisition cost of the investment is less than the investor's share in the fair value of the associate's net assets, the difference is credited to income on acquisition.

## Deferred tax

Deferred tax assets or liabilities are recognized for all differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding amount recognized for tax purposes. Deferred tax is calculated at the tax rates that are expected to apply, under current legislation, in the period when the liability is settled or the asset is realized.

## Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized according to the degree of completion of the contract activity at the balance sheet date. This is measured input-oriented based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs (cost-to-cost method). Project progress is continuously monitored and deviations of any kind from the initial scope and outcome of the project are included in the assessment.

If the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred which are likely to be recoverable. Contract costs are recognized as expenses in the period in which they occur.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

# Consolidated Financial Statements

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## Notes

### Inventories

Raw materials and supplies are stated at the lower of cost or net realizable value. The cost of inventories is determined by applying the weighted average method.

Work in progress and finished goods as well as services rendered but not yet chargeable are also stated under the principle "lower of cost and net realizable value". Cost of production includes direct costs as well as fixed and variable overhead expenses.

### Receivables and other current assets

Bad debt provisions are made for those items that are considered uncollectible or only partially collectible.

### Emission certificates

Emission certificates are capitalized at their fair value at the time of assignment. The difference between fair value and the amount paid by the Group is recognized under the heading "Government grants". Provisions are recognized at each reporting date for the obligation to surrender certificates representing the Group's actual emissions up to that date. The provision is measured at the fair value of the certificates capitalized, provided the certificates needed to settle the obligation are covered by the certificates held at the respective reporting date. To the extent that the certificates needed to settle the obligation exceed the certificates held, the provision for that part of certificates is valued at the additional fair value of certificates needed to settle the obligation. The government grant for emission certificates used up to that date is recognized as income.

### Investments held as current assets

Short-term investments readily available for sale are valued at their market value. The difference between market value and acquisition cost is recognized directly in equity and transferred to profit or loss on sale. Purchased or sold investments are recognized on the settlement date.

### Government grants

Government grants are initially recognized as deferred income and credited to "Other operating income" systematically on a straight-line basis over the expected useful life of the subsidized asset. Recognition and valuation of emission certificates are detailed in section "emission certificates".

### Pension commitments and similar obligations

Almost all staff members of the Group are covered by defined benefit or defined contribution pension plans.

The pension payments under defined benefit pension plans are determined by the salary on retirement and by the duration of service. The pension commitments under the defined benefit plans of Lenzing Fibers Inc. and Lenzing Fibers (Hong Kong) Ltd. are financed by contributions to a retirement fund. The pension commitments of Lenzing AG and Hahl Group are in part covered by qualifying insurance policies which are recognized as pension assets.

Under its defined contribution plans the Group makes payments to external pension funds.

In addition, staff members with employment contracts under Austrian law with a starting date up to 31 December 2002 are entitled to severance payments. Payment is due for any type of termina-

tion of contract when the employee has reached retirement age and the employment contract at that time has had a minimum duration of ten years. The amount of severance payment depends on the remuneration level at termination time and the number of years of service. These claims of staff members must therefore be treated as if they were claims under defined benefit pension plans. The obligations arising from defined benefit pension plans and severance payment obligations are determined in accordance with IAS 19.

For those staff members with employment contracts under Austrian law with a starting date from 1 January 2003 the Group is required by law to contribute 1.53% of remuneration to an external pension fund.

In accordance with IAS 19.93A actuarial gains and losses are recognized in full in the period in which they occur. They are recognized outside profit or loss in accordance with IAS 19 paragraphs 19.93B to 19.93D.

Please refer to note 34 for the recognition and measurement of entitlement of staff members to defined benefit pension plans and their claims to severance payments.

### Obligations to pay anniversary bonuses

Collective bargaining agreements stipulate that Lenzing AG and some subsidiaries are obliged to pay anniversary bonuses to staff members who are in the service of the company for a specified number of years. The payments are based on the remuneration at the time of the respective anniversary. No company assets were segregated and no contributions were paid to any separate pension fund to finance these commitments.

Please refer to note 34 for the recognition and measurement of these obligations.

### Borrowing costs

Borrowing costs are recognized in profit or loss in the period in which they arise, even if they are directly attributable to financing an asset and arise during the construction period.

### Revenue recognition

Sales are recognized at the time when the risks and rewards of product ownership pass to the customer, taking into account agreed delivery terms.

### Use of estimates

The preparation of financial statements in accordance with IFRS requires that the Management Board make estimates and assumptions that affect the recognition and valuation of assets and liabilities at the reporting date and of revenues and expenses of the period, as well as the assessment of contingent assets and liabilities. The amounts ultimately realized may differ from these estimates.

### Earnings per share

In accordance with IAS 33 earnings per share are calculated by dividing net income for the year attributable to ordinary shareholders of the parent company by the average number of ordinary shares outstanding during the period. There are no effects of dilution. Please refer to note 18 for details of the computation.

# Consolidated Financial Statements

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## Notes

### Derivative financial instruments

The Group uses derivative financial instruments to hedge currency risks arising in the course of business operations and to manage risk arising from gas price volatility. Such derivative financial instruments serve to balance the variability of cash flows from future transactions. Hedging transactions are determined annually in advance on the basis of anticipated sales and gas consumption in the respective foreign currency.

The Group applies the rules of hedge accounting as set out in IAS 39. If the conditions for the application of hedge accounting

are met the result from changes in the market value of derivative financial instruments is either recognized in profit or loss or directly in equity. This depends on whether the hedging transaction is a fair value hedge or a cash flow hedge. In the case of a fair value hedge the gain or loss from re-measuring the fair value of the hedging transaction and the result of the corresponding underlying transaction are both recognized in profit or loss as part of the income from operations. In the case of changes in the fair value of cash flow hedges, which serve to hedge the risk concerning the variability of cash flows from a planned transaction, unrealized gains and losses are initially recognized directly in equity and affect profit or loss of the period at the time when the hedged transactions are realized.

## Note 4. Acquisition of subsidiaries

In the reporting period the following changes affected the scope of consolidation:

### Formation of new companies:

- April 2007:** Pedex GmbH and Pedex Grundstücksgesellschaft mbH, both in Wald-Michelbach, Germany
- May 2007:** LP Automotive GmbH, Lenzing, Austria
- Lenzing USA Inc. und Hahl Inc., both in Lexington, South Carolina, USA
- European Carbon Fiber GmbH, Kelheim, Germany

### Change of investment:

44% share in European Precursor GmbH was sold; the share of the Lenzing Group decreased from 95% to 51%.

### Acquisition of subsidiaries:

- 22 March 2007:** Acquisition of 100% share in Hahl Group GmbH
- 20 June 2007:** Acquisition of 100% shares in Avit Investments Limited and Penique S.A. which jointly hold 43.81% of the already fully consolidated company PT. South Pacific Viscose (SPV).
- The transaction raised the Group's share in PT. South Pacific Viscose from 41.98% to 85.79%.
- 31 December 2007:** Acquisition of 100% share in Dolan GmbH
- The transactions were recognized by applying the purchase method. Acquired assets and liabilities and the resulting goodwill are as follows:



# Consolidated Financial Statements

## Notes

Hahl Group GmbH, Avit Investments Ltd., Penique S.A. and Dolan GmbH	1/1 – 31/12/2007		
	Acquiree's carry- ing amount before combination*)	Fair value adjustments	Fair value
	EUR mill.	EUR mill.	EUR mill.
<b>Assets</b>			
Goodwill	1.6	73.6	75.2
Other intangible assets, property, plant and equipment	60.2	24.8	85.0
Deferred tax	1.6	(0.5)	1.1
Other non-current assets	3.2	0.0	3.2
<b>Non-current assets</b>	<b>66.6</b>	<b>97.9</b>	<b>164.5</b>
Inventories	46.1	0.3	46.4
Receivables	35.0	0.1	35.0
Cash and cash equivalents	17.7	0.0	17.7
<b>Current assets</b>	<b>98.8</b>	<b>0.4</b>	<b>99.1</b>
	<b>165.4</b>	<b>98.3</b>	<b>263.7</b>
<b>Liabilities</b>			
Financial liabilities	(35.7)	0.0	(35.7)
Deferred tax	(0.4)	(6.6)	(7.0)
Provisions	(6.7)	(1.0)	(7.7)
<b>Non-current liabilities</b>	<b>(42.8)</b>	<b>(7.6)</b>	<b>(50.4)</b>
Financial liabilities	(8.6)	0.0	(8.6)
Provisions including current income tax	(14.8)	(0.1)	(14.8)
Payables	(41.3)	0.0	(41.3)
<b>Current liabilities</b>	<b>(64.7)</b>	<b>(0.1)</b>	<b>(64.8)</b>
	<b>(107.5)</b>	<b>(7.6)</b>	<b>(115.1)</b>
Former share in the equity of SPV and Dolan and other shareholders' share in equity			(17.2)
<b>Total</b>			<b>131.4</b>

The goodwill arising from the transactions presented above is justified by the anticipated positive contributions to results expected to be delivered from the acquired entities as well as from enhanced sales perspectives for the products of the Group. Moreover, synergies in the operative activities of the Group are expected.

The period net income of Hahl Group since acquisition and included in these consolidated financial statements is EUR 0.6 mill. If the period net income would have been included from 1 January 2007 on, consolidated sales for the reporting period would have increased by EUR 10.0 mill. and period net income would have improved by EUR 0.7 mill. (according to German Commercial Code).

\*) incl. 100% of the carrying amounts attributable to the share in PT. South Pacific Viscose, Indonesia, of which 43.81% were acquired indirectly

The period net loss of Avit Investments Ltd. and Penique S.A. since acquisition and included in these financial statements is EUR 0.2 mill. An inclusion as of 1 January 2007 would have resulted in a minority interest in period net income lowered by EUR 3.2 mill.

The acquisition of the shares in Dolan GmbH does not affect the consolidated result of 1 January to 31 December 2007, as the first consolidation took place as of 31 December 2007 (please refer to note 15).

## Note 5. Business operations classified as held for sale

In the business year sales negotiations were held with a regional investor concerning segment Paper. Finally, Paper operations were divested to an independent company (Lenzing Papier GmbH) at the beginning of March 2008 and subsequently 60% of the shares and with it effective management control of Lenzing's paper business were sold. The decision is a consistent continuation of the strategic orientation of the Lenzing Group towards growth sectors

innovative cellulose fiber products, high-quality special synthetic fibers and thermoplastics.

Lenzing Paper had been the smallest business unit of the Lenzing Group with recently 130 employees and a production of 83,000 tons of specialty papers (envelope paper, poster paper and recycled paper). On initial reclassification of these operations as held for sale, the Group has not recognized any impairment losses.

The combined results of the operations classified as held for sale are set out in the following table:

Income statement	2007	2006
for the year from 1 January to 31 December	EUR '000	EUR '000
Sales	62,011	57,914
Other operating income	9	10
Changes in inventories of finished goods and work in progress	2,538	(1,460)
Cash effective expenses	(64,040)	(55,701)
Amortization of intangible assets and depreciation of property, plant and equipment	(1,200)	(1,406)
<b>Income from operations (EBIT)</b>	<b>(682)</b>	<b>(643)</b>
Finance costs	(159)	0
<b>Income before tax (EBT)</b>	<b>(841)</b>	<b>(643)</b>
Attributable income tax	214	160
<b>Loss from operations classified as held for sale</b>	<b>(627)</b>	<b>(483)</b>

# Consolidated Financial Statements

## Notes

The major classes of assets and liabilities comprising the operations classified as held for sale at the balance sheet date are as follows:

Balance sheet	31/12/2007
	EUR '000
Intangible assets	21
Property, plant and equipment	9,645
Other financial assets	24
<b>Non-current assets</b>	<b>9,690</b>
Inventories	10,350
Receivables and other assets	6,434
Cash at banks	500
<b>Current assets</b>	<b>17,284</b>
<b>Assets of operations classified as held for sale</b>	<b>26,974</b>
<b>Government grants</b>	<b>61</b>
Deferred tax	225
Provisions	2,919
<b>Non-current liabilities</b>	<b>3,144</b>
Financial liabilities	11,650
Trade payables	3,222
Provisions	1,413
Other payables	767
<b>Current liabilities</b>	<b>17,052</b>
<b>Liabilities of operations classified as held for sale</b>	<b>20,257</b>
<b>Net assets of operations classified as held for sale</b>	<b>6,717</b>

The following cash flows are attributable to operations classified as held for sale:

Cash Flow from operations classified as held for sale for the year	2007	2006
from 1 January to 31 December	EUR '000	EUR '000
Gross cash flow	667	977
Change in working capital	(3,049)	1,360
Operating cash flow	(2,382)	2,337
Net cash used in investing activities	(1,047)	(1,216)
Net cash used in (-)/from (+) financing activities	3,929	(1,121)
Net cash flows	500	0

## Note 6. Segment reporting

For internal reporting to management the following business segments are used in the Lenzing Group:

### Fibers:

Segment Fibers comprises Business Units Textile Fibers, Nonwoven Fibers, Pulp and Energy, as well as by-products and trading in wood. It constitutes the core business of the Group.

### Plastics:

Segment Plastics (= Business Unit Plastics) produces plastics specialties for processing and finishing.

### Engineering:

Segment Engineering (= Business Unit Engineering) is the technical competence center of the Group and consists of three sectors:

- Engineering and Contracting
- Mechanical construction and industrial services
- Automation and mechatronics

### Paper:

Segment Paper (= Business Unit Paper) produces poster paper, envelope paper and recycled paper. As of 31 December 2007 this segment was classified and accounted for as operations held for sale (please refer to note 5).

# Consolidated Financial Statements

## Notes

2007	Fibers	Plastics	Engineering
	EUR '000	EUR '000	EUR '000
Sales to external customers	1,058,889	131,860	68,704
Inter-segment sales	10,581	1,227	50,327
<b>Total sales</b>	<b>1,069,470</b>	<b>133,087</b>	<b>119,031</b>
Segment result (EBIT)	148,399	8,959	6,194
Amortization/depreciation	66,879	4,163	979
Share in the result of associated companies	1,304	0	0
Expenditure for property, plant and equipment and intangible assets	115,416	22,282	4,389

2007	Fibers	Plastics	Engineering
	EUR '000	EUR '000	EUR '000
Segment assets	975,726	135,475	58,420
Segment liabilities	257,899	47,353	36,634
Investments in associates	11,809	0	0

2006	Fibers	Plastics	Engineering
	EUR '000	EUR '000	EUR '000
Sales to external customers	890,865	91,768	58,971
Inter-segment sales	11,959	1,685	44,584
<b>Total sales</b>	<b>902,824</b>	<b>93,453</b>	<b>103,555</b>
Segment result (EBIT)	89,605	8,851	10,136
Amortization/depreciation	63,631	2,641	768
Share in the result of associated companies	281	0	0
Expenditure for property, plant and equipment and intangible assets	93,477	9,825	946

2006	Fibers	Plastics	Engineering
	EUR '000	EUR '000	EUR '000
Segment assets	834,278	53,682	38,314
Segment liabilities	200,095	11,075	32,776
Investments in associates	9,029	0	0



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Other	Consolidation	Subtotal continuing operations	Paper	Total
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
1,057	0	1,260,510	62,011	1,322,521
1,305	(63,440)	0	0	0
<b>2,362</b>	<b>(63,440)</b>	<b>1,260,510</b>	<b>62,011</b>	<b>1,322,521</b>
465	(1,693)	162,324	(682)	161,642
37	(1,604)	70,454	1,200	71,654
(3)	0	1,301	0	1,301
12	(5,373)	136,726	1,058	137,784

Other	Paper	Consolidation	Total
EUR '000	EUR '000	EUR '000	EUR '000
321	26,974	(37,343)	1,159,573
566	20,257	(17,708)	345,001
743	0	0	12,552

Other	Consolidation	Subtotal continuing operations	Paper	Total
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
1,015	0	1,042,619	57,914	1,100,533
1,480	(59,708)	0	0	0
<b>2,495</b>	<b>(59,708)</b>	<b>1,042,619</b>	<b>57,914</b>	<b>1,100,533</b>
459	(1,277)	107,774	(643)	107,131
33	(1,329)	65,744	1,406	67,150
(3)	0	278	0	278
39	(157)	104,130	1,211	105,341

Other	Paper	Consolidation	Total
EUR '000	EUR '000	EUR '000	EUR '000
379	23,692	(22,519)	927,826
764	8,957	(7,387)	246,280
745	0	0	9,774

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## Notes

Segment assets essentially comprise intangible assets and property, plant and equipment, inventories, trade receivables and other receivables and assets, except income tax receivables. Segment liabilities relate to trade payables, provisions and other liabilities,

except income tax provisions and income tax liabilities. The prices for inter-segment deliveries are essentially determined on the same basis as for external customers.

### Breakdown by region

Sales presented by geographical markets and assets, and expenditure for property, plant and equipment and intangible assets analyzed by the geographical area in which the assets are located were as follows:

	Sales		Assets		Capital expenditure	
	2007	2006	2007	2006	2007	2006
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Continuing operations						
Austria	177,539	150,825	743,725	669,791	85,583	47,545
EU w/o Austria	410,467	355,526	124,480	58,333	14,813	7,176
Other Europe	75,856	55,765	0	0	0	0
Asia	497,475	397,529	237,806	149,459	32,427	48,491
The Americas	86,098	73,922	26,588	26,551	3,903	918
Other	13,075	9,052	0	0	0	0
<b>Subtotal</b>	<b>1,260,510</b>	<b>1,042,619</b>	<b>1,132,599</b>	<b>904,134</b>	<b>136,726</b>	<b>104,130</b>
Operations classified as held for sale						
Austria	9,473	7,146	26,974	23,692	1,058	1,211
EU w/o Austria	44,168	43,631	0	0	0	0
Other Europe	7,141	6,483	0	0	0	0
Asia	254	157	0	0	0	0
The Americas	0	0	0	0	0	0
Other	975	497	0	0	0	0
<b>Subtotal</b>	<b>62,011</b>	<b>57,914</b>	<b>26,974</b>	<b>23,692</b>	<b>1,058</b>	<b>1,211</b>
<b>Total</b>	<b>1,322,521</b>	<b>1,100,533</b>	<b>1,159,573</b>	<b>927,826</b>	<b>137,784</b>	<b>105,341</b>

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The products of the Group are marketed globally. The production lines for segment Fibers are located in Austria, UK, USA and Indonesia. The main site, Lenzing, has an annual capacity of 235,000 tons. Its production focus is on fiber specialties such as modal and nonwovens. Lyocell production sites include Heiligenkreuz, Austria, Grimsby, UK, and Mobile, USA, with annual capacities of 40,000 tons each. A viscose fiber production plant is located in Purwarkarta, Indonesia, with an annual capacity of 155,000 tons serving the Indonesian market and providing fiber for export. The viscose fiber production plant in Nanjing, China, with an annual production capacity of 60,000 tons, started production at the beginning of the second quarter 2007. The production facilities of all other segments are located in the Lenzing area, Germany, the Czech Republic and the USA.

## Note 7. Sales

The sales increase by 20.9% to EUR 1,260,510 thousand was based above all on the excellent global fiber business which led to the increase of quantity sold, enabled by the start-up of production

at the new site in Nanjing and further capacity increases at the other production sites, and allowed for price increases over 2006. Sales by segment and geographical markets are presented in note 6.

## Note 8. Changes in inventories of finished goods and work in progress

This heading represents the credit/charge required to reflect the manufacturing costs for goods produced by the Group that were still on stock at the reporting date.

## Note 9. Work performed by the group and capitalized

This heading represents expenses of the Group that were capitalized as part of the production costs of fixed assets.

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## Notes

### Note 10. Other operating income

This heading comprises:

	2007	2006
	EUR '000	EUR '000
Revenues from investment grants previously recognized as deferred income	3,500	4,217
Revenues from government grants for emission rights	2,292	4,386
Sale of emission certificates	0	2,192
Refund for maintenance costs	3,552	1,986
Grants for partial funding of research projects	914	2,891
Revenues from staff canteen	1,119	1,110
Gain on the disposal of fixed assets	99	248
Insurance refunds	251	0
Sundry operating income	2,863	620
	<b>14,590</b>	<b>17,650</b>

### Note 11. Personnel expenses

This heading comprises:

	2007	2006
	EUR '000	EUR '000
Wages and salaries	177,238	153,724
Expenses for severance payments	5,288	3,844
Pension expense	3,342	3,716
Statutory social security contributions	39,772	36,620
Voluntary social spending	3,619	3,228
	<b>229,259</b>	<b>201,132</b>

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Collective bargaining agreements for the Austrian sites resulted in an increase of 2.7% as of 1 May 2007. Similar agreements at the subsidiaries resulted in increases of 4.0% in the UK, 2.6% in Germany, 3.0% in the Czech Republic and 6.6% in Indonesia. There were no corresponding, generally binding agreements in other

countries. Expenses for severance payments comprise expenses for statutory commitments of Lenzing AG and its Austrian subsidiaries towards their staff members (please refer to note 34) and voluntary severance payments.

The Lenzing Group employed:

Headcount (including operations classified as held for sale)	2007	2006
Average	5,818	4,886
As at 31 December	6,043	5,044

## Note 12. Amortization of intangible assets and depreciation of property, plant and equipment

Amortization of intangible assets and depreciation of property, plant and equipment amounting to EUR 70,454 thousand (2006: EUR 65,744 thousand) comprises systematic amortization and depreciation.



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### Note 13. Other operating expenses

This heading comprises expenses related to operating activities that do not fall under another heading.

	2007	2006
	EUR '000	EUR '000
Freight outward	40,803	36,915
Commissions and advertising costs	18,188	15,784
Service and maintenance and other purchased services	25,123	18,353
Insurance	7,571	6,974
Travel expenses	7,264	6,072
Legal, audit and consultancy fees	7,193	7,372
Rentals and leases	3,396	2,590
Waste disposal	3,042	2,847
Emission certificates	2,292	4,386
Foreign currency losses	5,381	1,335
Other	24,165	16,859
<b>Total</b>	<b>144,418</b>	<b>119,487</b>

### Note 14. Income from operations (EBIT)

EBIT was significantly improved by 50.6% over the very good year 2006 to EUR 162,324 thousand in 2007, despite ongoing high pressure from rising raw material and energy prices and the continuing weakness of the US dollar. Segment Fibers provided the essential contribution to this increase by higher volume production sold at significantly higher prices and by the further improvement of its product portfolio resulting in better profit margins.

In 2007 research and development costs of EUR 18,288 thousand (2006: EUR 16,108 thousand) were recognized in the operating result.

### Note 15. Income from investments in associates

Total income was EUR 1,301 thousand of which EUR 2,778 thousand (2006: EUR 278 thousand) represent the Group's share in the period result of the associated companies. Dolan GmbH became a full subsidiary of the Group as of 31 December 2007. Up to that point the company had been a subsidiary of EQUI-Fibres Beteiligungsgesellschaft mbH. The income from investments in associates was reduced by the Group's share in the gain realized by EQUI group from the sale of Dolan in the amount of EUR 1,477 thousand. Simultaneously goodwill arising from the acquisition of Dolan GmbH was reduced by the same amount.

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## Note 16. Other investment income

	2007	2006
	EUR '000	EUR '000
Expenses for financial assets and investments held as current assets	(2,109)	(2,975)
Interest and similar income from financial assets	671	715
Other interest and similar income	3,192	2,953
Income from the disposal of and write-ups to financial assets and investments held as current assets	243	3
	<b>1,997</b>	<b>696</b>

## Note 17. Income taxes

Income taxes comprise current and deferred tax expense of the companies included in the consolidated financial statements.

	2007	2006
	EUR '000	EUR '000
Current tax expense:		
Relating to current year	22,666	20,132
Over-/underprovided in previous years	(2,858)	(121)
	<b>19,808</b>	<b>20,011</b>
Deferred tax:		
Relating to current year	13,344	1,112
Relating to prior periods	(1,312)	1,658
Losses incurred during the business year with no deferred tax asset recognized in prior years	711	4
Change in valuation allowance on deferred tax assets	0	(12,552)
	<b>12,743</b>	<b>(9,778)</b>
	<b>32,551</b>	<b>10,233</b>
Attributable to:		
Continuing operations	32,765	10,394
Operations classified as held for sale	(214)	(161)

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## Notes

The reconciliation of taxes at the statutory corporate income tax rate compared with effective tax expense is as follows:

	2007	2006
	EUR '000	EUR '000
Continuing operations	151,015	99,240
Operations classified as held for sale	(841)	(643)
<b>Income before tax</b>	<b>150,174</b>	<b>98,597</b>
Tax at Austrian tax rate (25%)	37,544	24,649
Tax free income and tax allowances (in particular allowances for research and development)	(2,314)	(1,086)
Non-deductible expenses and withholding taxes	307	585
Income from investments in associates	(325)	(69)
Write-down relating to subsidiaries	0	(3,625)
Effect of different tax rates of subsidiaries	1,634	873
Changes of tax rates	(442)	0
Tax expense/income relating to prior periods	(4,169)	1,538
Effect of changes in tax losses and other temporary differences not recognized as deferred tax asset	316	(12,632)
<b>Income tax expense recognized in profit or loss</b>	<b>32,551</b>	<b>10,233</b>

As at 31 December 2007 tax loss carry-forwards amount to EUR 14,427 thousand (2006: EUR 61,661 thousand). In accordance with IAS 12.35 no deferred tax asset was recognized for some part of the unused losses (EUR 8,711 thousand; 2006: EUR 6,235 thousand). Part of the decrease of tax loss carry-forwards is due to foreign currency translation (2007: EUR 5.369 thousand; 2006: EUR 83 thousand). Tax losses utilized in the period amounted to EUR 51,254 thousand (2006: EUR 3 thousand). The losses may be carried forward indefinitely to offset future profits.

## Note 18. Earnings per share

Earnings per share from continuing operations and operations classified as held for sale are calculated as follows:

	2007	2006
Net income attributable to shareholders of Lenzing AG (EUR '000)	109,621	83,889
Less: Net income from operations classified as held for sale attributable to shareholders of Lenzing AG (EUR '000)	627	483
Net income used in the calculation of earnings per share from continuing operations (EUR '000)	110,248	84,372
Number of shares	3,675,000	3,675,000
Earnings per share EUR		
From continuing operations	30.00	22.96
From operations classified as held for sale	(0.17)	(0.13)
<b>Earnings per share</b>	<b>29.83</b>	<b>22.83</b>

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## Note 19. Intangible assets

Please refer to table “Development of fixed assets” on pages 150 and 151 for a breakdown and the development of intangible assets.

The increase in value under heading “Concessions, industrial property rights, licenses and similar rights” is due to trademarks of newly acquired subsidiaries. The total carrying amount of EUR 13,153 thousand as at 31 December 2007 (31 December 2006: EUR 7,043 thousand) includes EUR 5,415 thousand (31 December 2006: EUR 4,678 thousand) for items developed internally.

There are mortgages and other liens on property, plant and equipment. Please refer to note 31 for details.

### Purchase commitments

Open purchase orders for the delivery of property, plant and equipment as at 31 December 2007 came to EUR 34,055 thousand (31 December 2006: EUR 46,949 thousand).

### Impairment of assets

Annual impairment tests were carried out on plant and equipment for which an indication exists that the asset may be impaired. In these tests, assumptions, in particular on the future development of production and sales volumes, have to be made which may or may not prove to be accurate. Management made these assumptions by cautious extrapolation of previous developments.

## Note 20. Property, plant and equipment

Please refer to table “Development of fixed assets” on pages 150 and 151 for a breakdown and the development of heading “Property, plant and equipment”.

### Mortgages and other liens on property, plant and equipment and restrictions on disposal rights

The plant in Mobile is leased and therefore not legally held by the Group. The Group may therefore sell, mortgage or dispose of the plant only with formal consent of the lessor.

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## Notes

### Note 21. Investments in associates

Investments in the following companies are accounted for at equity in the consolidated financial statements:

	31/12/2007	31/12/2006
	EUR '000	EUR '000
EQUI-Fibres Beteiligungsgesellschaft mbH, Krefeld, Germany	11,692	8,919
LKF Tekstil Boya Sanayi ve Tikaret A.S., Istanbul, Turkey	70	70
WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H., Vienna, Austria	743	745
RVL Reststoffverwertung Lenzing GmbH, Lenzing, Austria	47	40
	<b>12,552</b>	<b>9,774</b>

The Group's share in the income of these companies is shown in table "Development of fixed assets" on pages 150 and 151 as either write-up or depreciation.

The financial position and the financial performance of these associates are as follows:

	EQUI	LKF*)	WWE	RVL
2007	EUR '000	EUR '000	EUR '000	EUR '000
Sales	170,605	0	0	8,924
Net income	7,417	0	(10)	14
31/12/2007	EUR '000	EUR '000	EUR '000	EUR '000
Non-current assets	43,212	2	0	0
Current assets	65,123	1,977	3,005	122
Non-current liabilities	36,942	1,768	0	0
Current liabilities	38,221	2	35	28
Equity	33,172	209	2,970	94

\*) preliminary



## Note 22. Other financial assets

Please refer to table "Development of fixed assets" on pages 150 and 151 for a breakdown and the development of other financial assets.

### Securities held as fixed assets

Securities are valued at market prices.

2007	Market Value	Average effective interest rate	Income for business year
	EUR '000	in %	EUR '000
Austrian federal bonds	6,214		
Bonds by other issuers	2,194		
Shares and equity funds	1,659		
Other securities	1,717		
	<b>11,784</b>	5%	617

2006	Market Value	Average effective interest rate	Income for business year
	EUR '000	in %	EUR '000
Austrian federal bonds	10,590		
Bonds by other issuers	2,225		
Shares and equity funds	2,622		
Other securities	1,717		
	<b>17,154</b>	4%	715

Securities were valued individually in order to determine exchange rate gains and losses.

### Loans

The loans of EUR 596 thousand (2006: EUR 642 thousand) included under this heading are granted to third parties.

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## Notes

### Note 23. Other non-current assets

	31/12/2007	31/12/2007
	EUR '000	EUR '000
Long-term receivables	1,066	1,432
Share held in a non-profit housing society	1,150	1,150
Pension assets	270	216
Prepaid expenses and deferred costs	214	255
	<b>2,700</b>	<b>3,053</b>

### Note 24. Inventories

	31/12/2007	31/12/2006
	EUR '000	EUR '000
Raw materials and supplies	83,181	61,640
Work in progress	13,043	9,722
Finished goods produced and merchandise held for resale	65,034	46,389
Prepayments	2,709	6,155
	<b>163,967</b>	<b>123,906</b>

Raw materials and supplies essentially comprise beech wood for pulp production, pulp and chemicals for cellulose production, synthetic pellets, small parts and replacement parts. The significant increase over 2006 is due to the company acquisitions of segment Plastics and the start-up of operations at the viscose fiber plant in Nanjing.

Headings "Work in progress" and "Finished goods produced and merchandise held for resale" comprise viscose and lyocell fibers, sodium sulfate, acetic acid, furfural and plastics products, as well as products of Business Unit Engineering.

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## Note 25. Trade receivables

	31/12/2007	31/12/2006
	EUR '000	EUR '000
Trade receivables	128,874	122,369
Provisions for doubtful accounts	(3,697)	(5,207)
	<b>125,177</b>	<b>117,162</b>
Amounts due from customers under construction contracts (please refer to Note 26)	10,620	2,273
	<b>135,797</b>	<b>119,435</b>

Receivables were assigned or pledged as collateral for liabilities (please refer to Note 31).

## Note 26. Construction contracts

Heading "Trade receivables" includes amounts due from customers under construction contracts of EUR 10,620 thousand (2006: EUR 2,273 thousand).

At 31 December 2007 aggregate costs incurred under ongoing construction contracts and unrealized recognized profits, less

recognized losses, amounted to EUR 27,922 thousand (2006: EUR 8,321 thousand). Progress billings and advances received from customers under ongoing construction contracts amounted to EUR 22,219 thousand (2006: EUR 12,220 thousand).

Advances for which related work has not started, and billings in excess of costs incurred are presented as "Other liabilities" and came to EUR 4,917 thousand as at 31 December 2007 (31 December 2006: EUR 6,172 thousand).

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## Notes

### Note 27. Other receivables and assets

This item comprises:

	31/12/2007	31/12/2006
	EUR '000	EUR '000
Tax receivables other than income taxes	22,111	24,244
Derivative financial instruments	7,664	4,730
Debit balances on creditors	3,019	2,159
Payments in advance	1,860	2,558
Grants	1,179	2,648
Interest due from customers	1,927	1,403
Other	6,917	4,782
<b>Financial assets</b>	<b>44,677</b>	<b>42,524</b>
Emission certificates	7	2,103
Prepaid expenses and deferred costs	1,934	1,059
	<b>46,618</b>	<b>45,686</b>

### Note 28. Investments held as current assets

Investments held as current assets represent marketable securities available for immediate sale. They are stated at their fair value as at 31 December and comprise:

	Market Value in EUR '000		Average yield	
	2007	2006	2007	2006
Bonds	8,164	8,199	0.50%	3.10%

Investments were valued individually in order to determine gains and losses.

## Note 29. Equity

### Common stock and capital reserve

The common stock of Lenzing AG comprises 3,675,000 shares of no par value (unchanged from 31 December 2006) with each share being of equal value and holding equal rights and duties. The share capital is fully paid.

The capital reserve is a restricted reserve of Lenzing AG which may only be used to offset accumulated losses of Lenzing AG.

### Retained earnings

Retained earnings comprise:

	EUR '000
Revenue reserve of Lenzing AG	247,447
Accumulated profit of Lenzing AG	51,471
Retained earnings of the subsidiaries and effects of adjusting the financial statements of Lenzing AG and its subsidiaries to IFRS	175,758
<b>Total</b>	<b>474,676</b>

	EUR '000
After transfers to reserves, the profit for 2007 of Lenzing AG amounted to	51,446
Add: accumulated profit brought forward from 2006	25
<b>Total accumulated profit</b>	<b>51,471</b>

The revenue reserve of Lenzing AG may be released at any time and distributed to shareholders as part of accumulated profits.

The Management Board proposes that:

Under Austrian law only the accumulated profit of the parent company as stated in the parent's approved individual financial statements is available for distribution to the shareholders. As at 31 December 2007 the parent's accumulated profit was EUR 51,471 thousand.

	EUR
A dividend of EUR 14.00 per share be paid for the 3,675,000 shares which in total would amount to	51,450,000.00
The balance to carry forward to next year be	20,519.85



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Dividends are subject to the deduction of capital gains tax of 25%. This covers income tax for individuals with unlimited tax liability (Austrian final taxation). Corporations with unlimited tax liability

holding at least 25% of common stock are exempt from capital gains tax. Double taxation agreements must be observed in the event of limited tax liability.

The development of equity is as follows:

Development of Equity	Common stock	Capital reserves
	EUR '000	EUR '000
As at 1/1/2006	26,717	63,600
Recognized income and expense		
taken directly to equity		
transferred to profit or loss		
Tax on items taken directly to or transferred from equity		
<b>Net income/loss recognized directly in equity</b>	<b>0</b>	<b>0</b>
Net income		
<b>Total recognized income and expense for 2006</b>	<b>0</b>	<b>0</b>
Contribution to capital		
Dividends		
Other		
As at 31/12/2006	26,717	63,600
Recognized income and expense		
taken directly to equity		
transferred to profit or loss		
Tax on items taken directly to or transferred from equity		
<b>Net income/loss recognized directly in equity</b>	<b>0</b>	<b>0</b>
Net income		
<b>Total recognized income and expense for 2007</b>	<b>0</b>	<b>0</b>
Contribution to capital		
Change in scope of consolidation		
Dividends		
Other		
As at 31/12/2007	26,717	63,600

<sup>\*)</sup> The dividend per share was EUR 8 (2006)/EUR 10 (2007)

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## Minority interests

Minority interests represent the share of other shareholders in the equity and the net income of the consolidated subsidiaries.

Third parties hold significant interests in PT. South Pacific Viscose, European Precursor GmbH and Lenzing (Nanjing) Fibers Co., Ltd.

Share of Lenzing AG shareholders			Minority interests	Equity total
Currency translation reserves	Retained earnings and other reserves	Total		
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
1,632	343,835	435,784	19,694	455,478
(4,318)	3,105	(1,213)	(2,504)	(3,717)
	2,288	2,288	0	2,288
	(1,109)	(1,109)	91	(1,018)
(4,318)	4,284	(34)	(2,413)	(2,447)
	83,889	83,889	4,474	88,363
(4,318)	88,173	83,855	2,061	85,916
			5,974	5,974
	(29,400)*	(29,400)	(2,001)	(31,401)
	49	49	0	49
(2,686)	402,657	490,288	25,728	516,016
(17,958)	1,966	(15,992)	(957)	(16,949)
	(3,106)	(3,106)	0	(3,106)
	294	294	5	299
(17,958)	(846)	(18,804)	(952)	(19,756)
	109,621	109,621	8,002	117,623
(17,958)	108,775	90,817	7,050	97,867
			1,089	1,089
			(13,886)	(13,886)
	(36,750)*	(36,750)	(2,099)	(38,849)
	(6)	(6)	0	(6)
(20,644)	474,676	544,349	17,882	562,231

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## Notes

### Note 30. Government grants

The amount reported under this heading essentially represents grants received from the public sector to promote investment in economically underdeveloped regions, grants for investment in environmental protection projects and other grants aimed at promoting capital expenditure, such as investment tax grants. To a lesser degree, research projects are also supported by direct public-sector grants and loans at favorable interest rates.

As the conditions attached to these grants are being adhered to, it is considered unlikely that even part of the grants received will become repayable.

Moreover, this heading comprises the remaining government grants for emission certificates of EUR 3 thousand (31 December 2006: EUR 184 thousand) representing the value of emission certificates at the date of assignment less the amount recognized as income.

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## Note 31. Liabilities with banks and other loans

Liabilities with banks and other loans comprise the following as at 31 December:

2007	Currency	Nominal amount '000	Carrying amount EUR '000	Average effective interest rate in %
Liabilities with banks				
Loans:				
Fixed interest	EUR	178,230	178,228	4.14
Fixed and variable interest	EUR	4,417	4,417	1.09
Variable interest	EUR	58,958	58,958	4.94
	USD	34,410	23,384	7.53
	CNY	220,500	20,519	6.78
Working capital loans*) variable interest	EUR	13,371	13,371	5.15
			<b>298,877</b>	
Other loans				
Fixed interest	EUR	5,484	5,484	2.23
	USD	37	25	6.90
Fixed and variable interest	EUR	18,265	18,265	2.22
Variable interest	EUR	1,718	1,718	3.68
	USD	4,686	3,184	7.89
			<b>28,676</b>	
<b>Total financial liabilities</b>			<b>327,553</b>	
Short-term			30,009	
Long-term			297,544	

\*) Revolving credits and current accounts

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2006				
	Currency	Nominal amount	Carrying amount	Average effective interest rate
		'000	EUR '000	in %
Liabilities with banks				
Loans:				
Fixed interest	EUR	78,466	78,462	3.96
Fixed and variable interest	EUR	5,526	5,526	1.12
Variable interest	EUR	19,802	19,802	3.69
	USD	34,312	26,049	8.10
	CNY	40,000	3,894	6.84
Working capital loans*)				
variable interest	EUR	54,868	54,868	2.95
	USD	1,217	924	5.75
	GBP	1,000	1,493	5.35
			<b>191,018</b>	
Other Loans				
Fixed interest	EUR	5,513	5,513	2.27
	USD	16	12	6.91
Fixed and variable interest	EUR	31,316	31,316	3.01
Variable interest	EUR	1,703	1,703	2.96
	USD	17,542	13,310	7.90
			<b>51,854</b>	
<b>Total financial liabilities</b>			<b>242,872</b>	
Short-term			28,419	
Long-Term			214,453	

\*) Revolving credits and current accounts

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Liabilities with banks and other loans will be due as follows:

	31/12/2007			
	EUR '000			
	Variable interest	Fixed and variable interest	Fixed interest	Total
On demand or within one year	19,808	6,934	3,267	30,009
More than one to two years	45,755	5,881	52,792	104,428
More than two to three years	10,806	5,317	4,073	20,196
More than three to four years	11,756	3,383	18,652	33,791
More than four to five years	10,813	1,167	85,768	97,748
More than five years	22,196	0	19,185	41,381
	<b>121,134</b>	<b>22,682</b>	<b>183,737</b>	<b>327,553</b>
Less amounts due for settlement within 12 months	(19,808)	(6,934)	(3,267)	(30,009)
<b>Amounts due for settlement in more than 12 months</b>	<b>101,326</b>	<b>15,748</b>	<b>180,470</b>	<b>297,544</b>

	31/12/2006			
	EUR '000			
	Variable interest	Fixed and variable interest	Fixed interest	Total
On demand or within one year	13,936	10,768	3,715	28,419
More than one to two years	61,966	9,478	3,203	74,647
More than two to three years	10,660	6,729	52,484	69,873
More than three to four years	6,936	5,317	16,476	28,729
More than four to five years	3,632	3,383	1,745	8,760
More than five years	24,913	1,167	6,364	32,444
	<b>122,043</b>	<b>36,842</b>	<b>83,987</b>	<b>242,872</b>
Less amounts due for settlement within 12 months	(13,936)	(10,768)	(3,715)	(28,419)
<b>Amounts due for settlement in more than 12 months</b>	<b>108,107</b>	<b>26,074</b>	<b>80,272</b>	<b>214,453</b>

The next adjustment of interest rates for variable interest loans and loans combining fixed and variable interest will take place within the next six months, as detailed in the credit agreement.



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### Revolving credits

The terms of these loans under revolving lines of credit are fixed for a definite period of time and are subject to variable interest rates.

### Fixed term loans

“Other loans” comprise mainly loans by the Austrian Research Promotion Fund and the ERP Fund as well as loans from other shareholders.

### Collateral provided by the Group for bank loans and other loans

The table below shows the various types of collateral provided for bank loans and other loans as at 31 December. The amounts stated represent the lower of amounts outstanding or the carrying amount of the asset that is provided as collateral.

	2007	2006
	EUR '000	EUR '000
Liabilities with banks	72,615	74,578
Assignment of receivables	9,790	53,193
Mortgages, movable fixed assets pledged as collateral	62,825	21,385
Other loans	806	797
Assets leased under a finance lease	806	797

## Note 32. Commitments from finance leases

Agreements exist on the reconditioning of small water power stations which require the lessor to build, operate and maintain power stations. Lenzing AG purchases all energy generated at the price stipulated. Part of this price covers investment costs and therefore qualifies as contingent rent. At the end of the

lease term the lease transfers ownership of the power stations to Lenzing AG against payment of a transfer fee. The carrying amount of leased assets is EUR 780 thousand as at 31 December 2007 (31 December 2006: EUR 797 thousand) and is shown under item "Plant and machinery" in table „Development of fixed assets“.

Beyond that there are no agreements of substance that would qualify as finance leases.

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	2007	2006
	EUR '000	EUR '000	EUR '000	EUR '000
Within one year	8	0	7	0
More than one to five years	21	0	18	0
More than five years	2,167	2,167	879	845
Less:				
Future finance charges	(1,292)	(1,322)	0	0
<b>Present value of lease obligation</b>	<b>904</b>	<b>845</b>	<b>904</b>	<b>845</b>

Commitments from finance leases are included in balance sheet item "Other loans".

Contingent rent to the amount of EUR 407 thousand was recognized as expense in 2007 (2006: EUR 494 thousand).

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## Notes

### Note 33. Deferred taxes

In accordance with IAS 12 deferred tax assets or liabilities generally have to be recognized for all differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding amounts recognized for tax purposes. Temporary differences arising from goodwill not deductible for tax purposes are not provided for. In addition, a deferred tax asset arising from unused tax losses carried forward is to be recognized only to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

Deferred tax assets and liabilities are offset if they relate to the same taxable entity.

Deferred tax assets and liabilities relate to the following balance sheet items:

	31/12/2007	31/12/2006
	EUR '000	EUR '000
Deferred tax assets:		
Property, plant and equipment	3,486	2,683
Financial assets	808	0
Current assets	9,829	4,964
Provisions	9,889	9,652
Liabilities	517	159
Loss-carry-forwards	3,998	15,985
	<b>28,527</b>	<b>33,443</b>
Valuation allowance	(5,529)	(5,256)
<b>Total deferred tax assets</b>	<b>22,998</b>	<b>28,187</b>
Offset against deferred tax liabilities	(22,134)	(26,746)
<b>Net deferred tax assets</b>	<b>864</b>	<b>1,441</b>
Deferred tax liabilities:		
Intangible fixed assets	1,852	701
Property, plant and equipment	25,531	19,041
Financial assets	208	258
Current assets	7,159	3,408
Accelerated depreciation for taxation purposes	1,271	1,371
Government grants	886	1,083
Liabilities	11,370	8,978
<b>Total deferred tax liabilities</b>	<b>48,277</b>	<b>34,840</b>
Offset against deferred tax assets	(22,134)	(26,746)
<b>Net deferred tax liabilities</b>	<b>26,143</b>	<b>8,094</b>

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Deferred taxes developed as follows:

	31/12/2007	31/12/2006	Change
	EUR '000	EUR '000	EUR '000
Deferred tax assets	864	1,441	(577)
Deferred tax liabilities	(25,918)	(8,094)	(17,824)
Operations classified as held for sale	(225)	0	(225)
<b>Net</b>	<b>(25,279)</b>	<b>(6,653)</b>	<b>(18,626)</b>
Thereof:			
Acquisition of subsidiaries			(6,823)
Directly credited to equity			295
Currency translation adjustment			645
Recognized as expense in the income statement			(12,628)
Included in the result from operations classified as held for sale			(115)
			<b>(18,626)</b>

At both 31 December 2007 and 31 December 2006, deferred tax assets were only recognized to the extent that it is probable that sufficient future taxable profit will be available against which the assets can be utilized.

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## Notes

### Note 34. Provisions

The Group's provisions comprise:

2007	Balance as at 1/1	Currency translation adjustment	Acquisition of subsidiaries	Transfer to operations classified as held for sale
	EUR '000	EUR '000	EUR '000	EUR '000
Severance payments	50,720	0	0	(2,261)
Pensions	23,698	(481)	4,056	0
Anniversary bonuses	13,405	0	221	(657)
Unconsumed vacation	6,057	(68)	672	(411)
Restructuring	765	0	0	0
Other personnel costs	19,326	(294)	767	(534)
Guarantees and warranties	1,324	(45)	92	0
Anticipated losses and other risks	7,355	(37)	10	0
Impending losses from derivative financial instruments	85	(18)	0	0
Emission certificates	1,918	0	0	0
Other	18,918	(344)	2,372	(468)
<b>Provisions</b>	<b>143,571</b>	<b>(1,287)</b>	<b>8,190</b>	<b>(4,331)</b>

Provisions for personnel costs essentially include accruals for vacation and Christmas allowances, performance bonuses, accrued flex time and overtime.

Other provisions essentially include those for services rendered but not invoiced, discounts and rebates yet to be granted, obligatory maintenance costs, legal, auditing and consultancy.

## Pensions

### Defined benefit plans

Lenzing AG and some of its subsidiaries have defined benefit pension plans providing retirement benefits based on the number of years of service and on remuneration received by eligible employees. These pension plans are partly covered by pension plan assets.

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Consumption	Reversal	Period Charge	Balance as at 31/12	Short-term	Long-term
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
(3,223)	0	6,581	<b>51,817</b>	360	51,457
(2,109)	(167)	2,815	<b>27,812</b>	1,959	25,853
(612)	0	1,341	<b>13,698</b>	999	12,699
(6,611)	0	9,342	<b>8,981</b>	8,981	0
(222)	(150)	0	<b>393</b>	393	0
(18,296)	(4)	22,830	<b>23,795</b>	23,735	60
(117)	(851)	285	<b>688</b>	614	74
(53)	(481)	5,166	<b>11,960</b>	11,960	0
(86)	0	1,128	<b>1,109</b>	1,109	0
(1,918)	0	4	<b>4</b>	4	0
(14,908)	(1,500)	29,190	<b>33,260</b>	33,260	0
<b>(48,155)</b>	<b>(3,153)</b>	<b>78,682</b>	<b>173,517</b>	<b>83,374</b>	<b>90,143</b>

The Lenzing AG pension plan comprises mainly retired staff members. The assumed retirement age of eligible staff members ranges from 58 to 63 years, depending on gender and position in the company. Life expectancy calculations are based on Austrian actuarial mortality tables "AVÖ – P 99 salaried employees". The pension commitments are partly covered by reinsurance contracts which were recognized as pension assets according to IAS 19.

The pension plans of Lenzing Fibers Inc. and of Hahl Group GmbH and its subsidiaries have been frozen, therefore no new pension entitlements will arise from these.

The projected unit credit method is the actuarial valuation method that was used to measure the present value of defined benefit obligations accruing under defined benefit plans.



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## Notes

The principal actuarial assumptions are:

### Actuarial assumptions

	2007	2006
Discount rate p. a. in %		
Austria	4.0	4.0
Germany	4.0 – 5.3	N/A
USA	6.0	5.8
Indonesia	11.0	10.5
Hong Kong	3.5	3.8
Estimated future salary and pension increases p.a. in %		
Austria	2.0 – 2.5	2.0 – 2.5
Germany	1.5 – 4.0	N/A
USA	0.0	0.0
Indonesia	9.0	9.0
Hong Kong	3.0	3.0
Expected rate of return on plan assets p.a. in %		
Austria	5.6	7.7
Germany	4.0	N/A
USA	7.5	7.2
Indonesia	N/A	N/A
Hong Kong	7.0	7.0

The Group recognized the following amounts relating to these plans as pension expense in the income statement:

	2007	2006
	EUR '000	EUR '000
Interest cost	1,548	1,482
Current service cost	338	339
Past service cost	50	55
Administrative and other costs	1	1
Expected return on plan assets	(430)	(417)
Effect of plan settlements	0	39
<b>Total expense</b>	<b>1,507</b>	<b>1,499</b>

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Expenses are presented in the income statement under the heading "Personnel expenses", namely under "Pension expense".

The actual return on plan assets was EUR 547 thousand (2006: EUR 524 thousand).

Actuarial losses recognized directly in equity in 2007 came to EUR 1,296 thousand (2006: EUR 44 thousand). Accumulated actuarial losses as at 31 December 2007 came to EUR 5,244 thousand (31 December 2006: EUR 3,948 thousand).

The amounts presented in the balance sheet for obligations from defined benefit pension plans (DBO) are derived as follows:

	31/12/2007	31/12/2006
	EUR' 000	EUR' 000
Present value of obligation (DBO)	35,505	31,100
Fair value of plan assets	(7,705)	(7,265)
<b>Deficit in plan</b>	<b>27,800</b>	<b>23,835</b>
Unrecognized past service cost	(258)	(353)
<b>Net amount recognized in the balance sheet</b>	<b>27,542</b>	<b>23,482</b>
Presented as:		
Nun-current assets	(270)	(216)
Long-term provision	25,853	21,744
Short-term provision	1,959	1,954
	<b>27,542</b>	<b>23,482</b>

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The present value of obligations from defined benefit pension plans and the fair value of plan assets developed as follows:

	2007	2006
	EUR '000	EUR '000
<b>Present value of obligation (DBO) as at 1/1</b>	<b>31,100</b>	<b>32,249</b>
Acquisition of subsidiaries	4,438	0
Interest cost	1,548	1,482
Current service cost	338	339
Actuarial losses	1,359	113
Currency translation adjustment	(828)	(446)
Benefits paid	(2,450)	(2,677)
Plan settlements	0	40
<b>Present value of obligation (DBO) as at 31/12</b>	<b>35,505</b>	<b>31,100</b>
<b>Fair value of plan assets as at 1/1</b>	<b>7,265</b>	<b>7,315</b>
Acquisition of subsidiaries	382	0
Contributions	241	287
Administrative and other costs	(1)	(1)
Expected return on plan assets	430	417
Actuarial gains/losses	64	69
Benefits paid	(341)	(500)
Currency translation adjustment	(335)	(322)
<b>Fair value of plan assets as at 31/12</b>	<b>7,705</b>	<b>7,265</b>

The fair value of plan assets is constituted by the following asset categories:

	2007	2006
	EUR '000	EUR '000
Equity instruments	2,008	1,954
Debt instruments	135	673
Insurance policies qualifying as plan assets	4,579	4,241
Other assets	983	397
<b>Balance as at 31/12</b>	<b>7,705</b>	<b>7,265</b>

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The history of pension obligations and assets and experience adjustments is as follows:

	2007	2006	2005
	EUR '000	EUR '000	EUR '000
Present value of defined benefit obligation (DBO)	35,505	31,100	32,249
Fair value of plan assets	(7,705)	(7,265)	(7,315)
<b>Deficit</b>	<b>27,800</b>	<b>23,835</b>	<b>24,934</b>
Experience adjustments [(+) gain/(-) loss]:			
on present value of obligation (DBO)	(343)	(18)	(917)
on plan assets	58	44	(69)

The Group expects to make contributions of EUR 31 thousand to the defined benefit plans during the next business year.

#### Defined contribution plans

The Group operates defined contribution pension plans for nearly all staff members not covered by defined benefit pension plans. The expense recognized in the income statement for these plans in 2007 came to EUR 1,797 thousand (2006: EUR 2,312 thousand).

#### Provisions for severance payments

The provisions for severance payments for staff members of Lenzing AG and its Austrian subsidiaries which become due with the beginning of statutory retirement age are considered as post-retirement benefits similar to pensions and are therefore calculated in accordance with the regulations of IAS 19.

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The following table shows the development of provisions for severance payments:

	2007	2006
	EUR '000	EUR '000
<b>Present value of obligation (DBO) as at 1/1</b>	<b>50,720</b>	<b>48,364</b>
Interest cost	1,938	1,935
Current service cost	3,003	2,334
<b>Total expense</b>	<b>4,941</b>	<b>4,269</b>
Transfer to operations classified as held for sale	(2,263)	0
Benefits paid	(3,223)	(2,082)
Actuarial loss	1,642	169
<b>Present value of obligation (DBO) as at 31/12</b>	<b>51,817</b>	<b>50,720</b>
Number of eligible persons	2,382	2,596
Actuarial assumptions		
Discount rate in % p.a.	4	4
Estimated future salary increases in % p.a.	3	3

Employee turnover is determined company by company based on the composition of staff and duration of job tenure.

Expenses are presented in the income statement under the heading "Personnel expenses", namely under "Expenses for severance payments". Actuarial losses recognized directly in equity in the statement of recognized income and expense came to EUR 1,642 thousand (2006: EUR 169 thousand). Accumulated actuarial losses as at 31 December 2007 came to EUR 4,893 thousand (31 December 2006: EUR 3,250 thousand).

The history of obligations for severance payments and experience adjustments is as follows:

	2007	2006	2005
	EUR '000	EUR '000	EUR '000
Present value of defined benefit obligation (DBO)	51,817	50,720	48,364
Experience adjustments [(+) gain/(-) loss] on present value of obligation (DBO)	(1,642)	(169)	(582)

Staff members with employment contracts under Austrian law with a commencement date later than 31 December 2002 acquire no severance payment claims. Contributions in the form of 1.53% of the respective wage or salary are paid in to a separate precautionary fund for employees ("Mitarbeitervorsorgekasse"). In 2007 contributions of EUR 335 thousand (2006: EUR 247 thousand) were paid.

### Provisions for anniversary bonuses

In accordance with collective bargaining agreements, Lenzing AG and some of its subsidiaries are required to pay anniversary bonuses to employees on the occasion of specific service anniversaries. The provisions for anniversary bonuses were measured in accordance with the regulations of IAS 19. The amounts due on the respective anniversaries are accrued evenly over the service period up to the anniversary date and the amounts attributable to the service period at the valuation date are discounted.

The following table shows the development of the provision for anniversary bonuses:

	2007	2006
	EUR '000	EUR '000
<b>Present value of obligation (DBO) as at 1/1</b>	<b>13,405</b>	<b>12,921</b>
Interest cost	536	517
Current service cost	491	355
Actuarial losses	314	162
<b>Total expense</b>	<b>1,341</b>	<b>1,034</b>
Acquisition of subsidiaries	221	0
Transfer to operations classified as held for sale	(657)	0
Benefits paid	(612)	(550)
<b>Present value of obligation (DBO) as at 31/12</b>	<b>13,698</b>	<b>13,405</b>
Number of eligible persons	2,678	2,628
<b>Actuarial assumptions</b>		
Discount rate in % p.a.	4–5.3	4
Estimated future salary increases in % p.a.	2.5–3	3

Employee turnover is determined company by company based on the composition of staff and duration of job tenure.



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### Note 35. Financial instruments

#### 35.1. Capital risk management

The Lenzing Group manages its equity and debt with the clear goal of optimizing revenues, costs and assets of its individual operations, its business units and the Group as such in view of a desired sustainable and high profitability and a solid balance sheet structure. Financial leveraging, sufficient liquidity at any time, and a clear focus on cash-based management ratios and control parameters in line with the strategy and the long term goals of the Group are essential.

This ensures that all group companies can operate on a going concern basis.

The Group's capital structure consists of interest bearing financial liabilities, including debt detailed in note 35.3., cash and cash equivalents and equity attributable to shareholders of the parent. Equity comprises common stock, capital reserves and retained earnings as detailed in note 29.

#### Net debt

The management board and the supervisory board of the Lenzing Group jointly and regularly survey the development of capital structure and the underlying control parameters, key data and influencing factors. In the course of these surveys, various risk profiles and sensitivity analyses are prepared and considered for any investments in property, plant and equipment and intangible assets and for specific projects and acquisitions. Projects and investments are planned on the basis of projected future cash flows, applying individual weighted discount rates (WACC) dependant on the risks attached to specific countries and other micro risks. These processes are regularly surveyed and revised by the management board. Development of competitors, market factors and market elasticity play an essential role.

Special attention is paid to the development of net debt as the two key data net debt and EBITDA have become essential key control parameters for the management of the Group as well as for lending banks. The continued optimum development of the Lenzing Group is ensured only by very good equity financing power (EBITDA) being the basis for high debt capacity.

Net debt and EBITDA are as follows:

#### Net debt 2007 (EUR '000)<sup>1</sup>

Interest bearing financial debt	339,202
Cash and cash equivalents (-)	(119,600)
<b>Net debt</b>	<b>219,602</b>

#### EBITDA 2007 (EUR '000)<sup>2</sup>

EBIT	162,324
Depreciation (+)	70,454
Reversal of government grants (-)	(3,500)
<b>EBITDA</b>	<b>229,278</b>

<sup>1</sup> Interest-bearing financial debt is defined as long-term and short-term financial liabilities as set out in Note 31. Net debt 2007 also encompasses cash and cash equivalents and financial liabilities included in the assets and liabilities classified as held for sale. <sup>2</sup> from continuing operations

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## 35.2. Significant accounting policies

Details of the significant accounting policies and valuation methods by type of financial asset and financial liability are presented in note 3.

## 35.3. Categories of financial instruments

	31/12/2007		31/12/2006	
	Carrying amount	Fair value	Carrying amount	Fair value
	EUR '000	EUR '000	EUR '000	EUR '000
<b>Financial Assets</b>				
Loans and receivables (including cash and cash equivalents):				
Cash and cash equivalents	111,436	111,436	88,807	88,807
Trade receivables	142,193	142,193	119,435	119,435
Loans to third parties	596	596	642	642
Other long-term receivables	1,066	1,066	1,432	1,432
Other short-term receivables	37,046	37,046	37,872	37,872
Available-for-sale financial assets:				
Securities held as fixed assets	11,784	11,784	17,154	17,154
Securities held as current assets	8,164	8,164	8,199	8,199
Derivative instruments in designated hedge accounting relationships	7,669	7,669	4,653	4,653
Other derivative instruments	2	2	77	77
	<b>319,956</b>	<b>319,956</b>	<b>278,271</b>	<b>278,271</b>
<b>Financial liabilities</b>				
Financial liabilities at amortised cost:				
Liabilities with banks and other loans at variable interest	132,784	132,784	122,043	122,043
Liabilities with banks and other loans at fixed and combined interest	206,419	200,057	120,829	118,184
Trade payables	104,179	104,179	72,458	72,458
Other payables	49,586	49,586	29,602	29,602
Derivative instruments in designated hedge accounting relationships	1,044	1,044	0	0
Other derivative instruments	65	65	84	84
	<b>494,077</b>	<b>487,715</b>	<b>345,016</b>	<b>342,371</b>

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## Notes

The market values of cash and cash equivalents and investments held as fixed and current assets are equivalent to the carrying amount. The carrying amount of loans receivable approximately corresponds to the market value.

The market value of receivables approximately corresponds to their carrying amount, as these are of a short-term nature and credit risk is covered by adequate allowances.

The market value of other liabilities corresponds to their carrying amount, due to their short-term nature. The market value was established by discounting the future cash flows related to these liabilities with the market interest rate at the reporting date.

### 35.4. Financial risk management

The Group is exposed to various financial risks resulting from changes in foreign currency exchange rates (in particular versus the US dollar), interest rates and market values, as well as liquidity risk, credit risk and cash flow risk. The management board has defined clear strategies in writing on how to deal with these financial risks and continuously monitors these strategies. The exact and up-to-date presentation and quantification of all risk groups is intended to achieve the highest level of risk transparency and information quality.

#### Exchange rate risk

The exchange rate risk of the Lenzing Group results from investment and operative business activity. This risk is hedged if it affects the Group's cash flows. Risk not affecting Group cash flows is not hedged as a matter of policy (such as exchange rate risk resulting from the consolidation of investments in a foreign operation).

Exchange rate risk from investing activities arises from the acquisition of shares in foreign companies. Operative business exposes the Group's individual companies to exchange rate risk arising from

scheduled incoming and outgoing payments not denominated in their functional currency. The exchange rate risk arising from foreign currency positions and expected future transactions outside their functional currency is hedged with foreign currency forward contracts and options which are recognized at market value. Due to its hedging activities the Lenzing Group is not exposed to any essential operative exchange rate risk at the reporting date.

Lenzing Group has compiled foreign currency sensitivity analyses on the basis of the following assumptions:

Exchange rate related changes in the values of fair value hedges dedicated to the compensation of exchange rate risk almost fully offset exchange rate related changes in the values of the underlying transaction in the same period of the income statement. These financial instruments therefore do not affect the development of results and equity in terms of currency risk.

The Lenzing Group is therefore only exposed to exchange rate risk arising from accounting for cash flow hedges. The derivatives employed hedge the scheduled net cash flow of financial year 2008. If the exchange rate of a functional currency of a company had increased or decreased 10% against the relevant foreign currencies as at 31 December 2007, the result from cash flow hedges would have been EUR 14,163 thousand higher or EUR 11,587 thousand lower, respectively.

#### Instruments for hedging exchange rate risk

#### Fair value hedges

Gains or losses from fair value hedges as well as gains or losses from hedged items are recognized as income or expense in the operating result. At the balance sheet dates the nominal values and market values of these hedging instruments were as follows:

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Type of derivative financial instrument	31/12/2007		31/12/2006	
	Nominal	Gain (+)/Loss (-)	Nominal	Gain (+)/Loss (-)
Functional currency/foreign currency	in '000 foreign curr.	EUR '000	in '000 foreign curr.	EUR '000
Forward contracts				
EUR purchase/USD sale	17,495	1,541.1	29,149	1,339.1
EUR sale/USD purchase	0	0.0	131	(5.6)
EUR purchase/JPY sale	9,261	0.2	905	2.1
EUR purchase/GBP sale	292	28.0	0	0.0
GBP purchase/EUR sale	3,800	(128.8)	1,100	45.2
GBP purchase/JPY sale	0	0.0	20,000	29.4
GBP purchase/USD sale	2,850	126.7	2,300	126.4
GBP sale/JPY purchase	0	0.0	14,000	(0.4)
GBP sale/USD purchase	0	0.0	1,000	0.6
USD purchase/EUR sale	0	0.0	601	(25.5)
<b>Total</b>		<b>1,567.2</b>		<b>1,511.3</b>
Options				
EUR purchase/USD sale	0	0.0	5,000	243.4
<b>Total</b>		<b>0.0</b>		<b>243.4</b>

### Cash flow hedges

For companies with the same functional currency, the respective net exposures in foreign currencies for the next business year are determined in the course of preparing the budget. Purchases in a specific foreign currency and sales in the same foreign currency are aggregated and hedged as a group. Approximately 50% of the budgeted net exposure for business year 2008 was hedged as at 31 December 2007 with contracts having maturities of up to 14 months.

Gains or losses from measuring cash flow hedges are recognized directly in equity and reclassified into operating profit or loss when the hedged transactions affect profit or loss. The market value of open cash flow hedges recognized directly in equity amounted to EUR 4,037 thousand as at 31 December 2007 and to EUR 3,892 thousand as at 31 December 2006.

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At the balance sheet dates the nominal values and market values of these hedging instruments were as follows:

Type of derivative financial instrument	31/12/2007		31/12/2006	
	Nominal	Gain (+)/Loss (-)	Nominal	Gain (+)/Loss (-)
Functional currency/foreign currency	in '000 foreign curr.	EUR '000	in '000 foreign curr.	EUR '000
Forward contracts				
EUR purchase/USD sale	150,587	4,703.4	122,166	2,432.0
EUR purchase/GBP sale	8	0.8	900	(10.1)
EUR sale/USD purchase	0	00	25,057	(51.0)
EUR sale/GBP purchase	22,000	(909.0)	288	16.1
GBP purchase/USD sale	15,000	(18.4)	17,550	581.0
EUR sale/CZK purchase	195,000	233.8	0	0.0
USD sale/IDR purchase	800	1.8	0	0.0
<b>Total</b>		<b>4,012.4</b>		<b>2,968.0</b>
Options				
EUR purchase/USD sale	0	0	40,000	923.6
EUR purchase/CHF sale	8,000	24.7	0	0
<b>Total</b>		<b>24.7</b>		<b>923.6</b>

### Price risk

Purchasing of gas by the Group had been centralized to the greatest possible extent in the middle of 2006 as part of optimizing energy cost. The Group uses futures traded at the respective commodity exchange to control the risk arising from gas price volatility. The hedging strategies are defined on the basis of consumption figures in the respective currency and analyzed by market-to-market comparison on a monthly basis.

The involved risks are hedged by purchasing future contracts covering gas purchases. Before the end of the month preceding the month when the hedged gas deliveries take place the future contracts are sold and at the same time the prices for the gas purchases of the next month are determined. The hedges at 31 December 2007 have maturities of up to 14 months. Unrealized gains from the valuation of open contracts and the sale of closed

future contracts at the reporting date came to EUR 1,138 thousand (2006: EUR 1,019 thousand loss). They were recognized directly in equity and will be transferred to the operating result as soon as the delivered gas is recognized as cost.

Apart from that, the Group's business activities expose it to common price risks in the line of business which are not hedged by financial instruments.

### Interest rate risk

Interest rate changes affect the Group's financing, investing and cash-management activities. The Group has long-term securities and loans receivable with a carrying amount close to their market or fair value amounting to EUR 12,380 thousand (2006: EUR 17,796 thousand; please refer to note 22) and securities held as current assets with a

carrying amount equaling their market value of EUR 8,164 thousand (2006: EUR 8,199 thousand). The fair value of these assets is subject to fluctuations because of changes in market interest rates.

Interest rate risk arising from floating-rate liabilities with banks and other loans at variable rates was described by sensitivity analyses. They show the impact of changes in the market interest rate on interest payments and interest expense. Changes in market interest rates affect interest expense.

Had the market interest rate been 100 basis points higher or lower as at 31 December 2007, the interest expense for floating-rate liabilities would have been higher or lower by EUR 771 thousand, respectively.

### Liquidity risk

Liquidity risk is defined as the risk of not being able to obtain funds at any time, in order to meet liabilities incurred. Corporate guidelines require uniform and anticipatory liquidity planning throughout the Group. As part of the budgeting process, all Group data is consolidated in a short-term (one-year) and a medium-term (four-year) liquidity plan. As at 31 December 2007 the Group had at its disposal open credit lines confirmed in writing of EUR 281,190 thousand (31 December 2006: EUR 217,667 thousand) for financing required operating resources, as well as for covering potential shortfall caused by economic cycles.

### Credit risk

Credit risk describes the risk of incurring a loss due to individual business partners not meeting their contractual obligations. The risk of non payment inherent in the Group's operating activities is largely covered by credit insurance and bank collateral (guaranties, letters of credit).

The maximum credit risk is equivalent to the carrying amount of monetary assets. These are loans receivable (EUR 596 thou-

sand), securities held as fixed and current assets (EUR 19,948 thousand), receivables (EUR 180,305 thousand) and liquid funds (EUR 111,436 thousand). In addition, the Group has assumed liability for other companies amounting to EUR 10,606 thousand of which EUR 10,106 thousand relate to associated companies. The Group will be charged if these companies do not meet their commitments.

There is no noteworthy concentration of risk arising from the placement of financial assets with just one single business partner.

### Cash flow risk

It is the policy of the Group to secure cash flow risk resulting from expected future transactions in foreign currencies by utilizing foreign currency forward contracts and options. These hedging transactions ensure that changes in exchange rates do not affect cash flows resulting from transactions in foreign currencies translated into euro.

Liabilities at variable interest rates with banks and other lenders of EUR 132,784 thousand – EUR 121,134 thousand of continuing operations and EUR 11,650 thousand of operations classified as held for sale – lead to fluctuations in cash flows related to these liabilities, that is, interest expense, whenever there are changes in the market interest rate.

## Note 36. Notes on the cash flow statement

The cash flow statement shows the change in liquid funds over the year as a result of cash receipts and payments. Liquid funds comprise cash and cash equivalents. The principles used in translating income and expenses for the income statement as set out in note 3 also apply to the translation of cash flows.



# Consolidated Financial Statements

## Notes

Gross cash flow is calculated as follows:

	2007	2006
	EUR '000	EUR '000
<b>Net income</b>	<b>117,623</b>	<b>88,363</b>
+ Loss from operations classified as held for sale	627	483
+ Depreciation of		
property, plant and equipment and amortization of intangible assets	70,454	65,744
financial assets	19	14
- Release of investment grants previously recognized as deferred income	(3,500)	(4,217)
- Write-ups of financial assets	(243)	(2)
+ Charge for/- Consumption or reversal of long-term provisions	1,523	1,547
- Gains/+ Losses on the disposal of		
intangible assets, property, plant and equipment	3,028	2,549
financial assets	68	0
- Deferred tax income/+ deferred tax expense	12,627	(9,778)
- Non-cash income from associated companies	(1,301)	(278)
- Other non-cash income/+ expense	2,713	2,489
<b>Gross cash flow</b>	<b>203,638</b>	<b>146,914</b>

The change in working capital comprises:

	2007	2006
	EUR '000	EUR '000
+ Decrease/- increase in inventories	(34,348)	(5,656)
+ Decrease/- increase in accounts receivable	(10,562)	(14,450)
- Decrease/+ increase in accounts payable	67,451	17,004
<b>Change in working capital</b>	<b>22,541</b>	<b>(3,102)</b>

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Payments of other shareholders concern payments of the minority shareholders of European Precursor GmbH (and in 2006 also of the minority shareholders of Lenzing (Nanjing) Fibers Co., Ltd) on their share in capital.

Receipts from financing activities comprise:

	2007	2006
	EUR '000	EUR '000
+ Investment grants	835	2,160
+ Net receipts from short-term loans	12,251	0
+ Receipts from long-term loans and borrowings	178,608	56,135
<b>Receipts from financing activities</b>	<b>191,694</b>	<b>58,295</b>

The Group's liquid funds comprise:

	31/12/2007	31/12/2006
	EUR '000	EUR '000
Cash	110,936	83,526
Cash equivalents	0	5,281
Cash and cash equivalents included in assets classified as held for sale	500	0
<b>Total</b>	<b>111,436</b>	<b>88,807</b>

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Cash comprises cash in hand and cash at banks, sight deposits and short-term time deposits at banks. Cash equivalents, which are subject to only insignificant risks of changes in value, comprise securities with a maturity of less than three months at the time of purchase.

Cash flow from operating activities includes the following interest and tax payments:

	2007	2006
	EUR' 000	EUR' 000
Interest received	3,930	2,998
Interest paid	14,682	8,124
Taxes paid	20,526	13,859

### Note 37. Operating leases

The Group has commitments under operating leases of property, plant and equipment that are not presented in the balance sheet. Operating expenses for 2007 include leasing and rental expenses of EUR 3,492 thousand (2006: EUR 2,898 thousand).

Future minimum lease payments for the non-cancellable term of these leases that mainly relate to IT equipment, vehicles and office premises will be due as follows:

	2007	2006
	EUR' 000	EUR' 000
Within one year	3,164	2,227
In the following 2 to 5 years	7,294	3,711
Thereafter	2,024	460
<b>Total</b>	<b>12,482</b>	<b>6,398</b>

### Note 38. Related party transactions

Related parties (companies and persons) of the Group comprise all subsidiaries and associated companies, as well as the members of the corporate bodies (Management and Supervisory boards) of Lenzing AG, B & C Holding GmbH and B & C Privatstiftung. B & C Holding GmbH and its subsidiaries are also considered related parties. Other shareholders of Lenzing AG or its subsidiaries are considered related parties if they are in a position to exercise significant influence on the operating policies of the company.

#### Business relationships with minority shareholders of subsidiaries

Management fees paid by subsidiaries to minority shareholders amounted to EUR 1,038 thousand (2006: EUR 2,371 thousand).

Lenzing AG provided loans to minority shareholders of subsidiaries, the outstanding balance being EUR 327 thousand as at 31 December 2007 (31 December 2006: EUR 310 thousand). The balance of the provision for doubtful debt relating to these loans is EUR 176 thousand (31 December 2006: EUR 141 thousand). Liabilities include loans of minority shareholders amounting to EUR 3,184 thousand (31 December 2006: EUR 13,310 thousand). These are subordinated loans at variable interest. The interest rate is based on LIBOR plus a surcharge and is adjusted every six months.

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## Business transactions with associated companies

These transactions were essentially with:

■ **EQUI-Fibres Beteiligungsgesellschaft mbH and its subsidiaries:**

Supply of pulp, machinery and equipment

■ **RVL Reststoffverwertung Lenzing GmbH:**

Operation of a recycling facility and purchase of generated steam

The volume of transactions and outstanding balances with associated companies are:

2007	EQUI	LKF	RVL
	EUR '000	EUR '000	EUR '000
Sales	46,025	0	8,817
Other operating income	218	0	223
Cost of material	5,084	0	0
Cost of purchased services	0	0	8,817
Other operating expenses	9	0	11
Interest income	32	0	0
Trade receivables	4,865	0	0
Amounts due under construction contracts	6,563	0	0
Other receivables	17	548	0
Liabilities from payables	667	0	0
Other liabilities	19,306	0	0

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2006	EQUI	LKF	RVL
	EUR '000	EUR '000	EUR '000
Sales	42,503	0	8,414
Other operating income	74	0	0
Cost of material	655	0	0
Cost of purchased services	0	0	8,414
Other operating expenses	0	0	38
Interest income	213	0	0
Trade receivables	3,528	0	0
Other receivables	100	589	0
Advances received under open construction contracts (less costs incurred and recognized profits)	1,615	0	0

Lenzing AG assumed proportionate liability for loans to a subsidiary of EQUI-Fibres Beteiligungsgesellschaft mbH.

## Remuneration of Management and Supervisory Board members

The remuneration of the members of the Management and Supervisory boards was as follows:

	2007	2006
	EUR '000	EUR '000
Short-term employee benefits	2,294	1,820
Post-employment benefits	159	124
	<b>2,453</b>	<b>1,944</b>

Payments to former members of the Management board or their dependents came to EUR 774 thousand in 2007 (2006: EUR 794 thousand).

## Note 39. Contingent liabilities and financial guarantee contracts

The following table shows the commitments and contingent liabilities of the Group as at 31 December:

	2007	2006
	EUR '000	EUR '000
Assumption of liability for associated companies	10,106	9,330
Assumption of liability for third parties	500	1,989

It is considered unlikely that the group will be held liable as a result of these commitments. At the reporting date the fair value of these is nil, thus no liability was recognized in the balance sheet.

The Management Board is not aware of any other commitments with any material effect on the financial position and performance of the Group.

### Litigation

Various legal proceedings resulting from the ordinary course of business are pending. The Management Board believes that these proceedings will not have material adverse effect on the present and future earnings of the Group.

## Note 40. Events after the balance sheet date

On 1 February 2008, Karl Schmutzer returned his mandate as Chairman of the Supervisory Board.

As of 4 March 2008, a 60% share of Lenzing Papier GmbH (segment Paper), and therefore the management control of this business field, were transferred to a group of investors around main investor Ernst Brunbauer of Gmunden (Austria). The remaining 40% will be kept by Lenzing AG. The new majority owner will continue to operate the company at its Lenzing site as an independent company. The consolidated statements present Paper as held for sale.



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## Notes

### Note 41. Direct and indirect investments of Lenzing AG as at 31 December 2007

Investment	Currency	Common stock	Ownership interest
			in %
Fully consolidated companies:			
Avit Investments Limited, Turks and Caicos	USD	2,201,000	100
Beech Investment s.r.o., Zlaté Moravce, Slovakia	SKK	200,000	100
BZL-Bildungszentrum Lenzing GmbH, Lenzing, Austria	EUR	43,604	75
Dolan GmbH, Kelheim, Germany	EUR	1,000,000	100
Energie- und Medienzentrale Heiligenkreuz GmbH, Heiligenkreuz, Austria	EUR	72,673	100
European Precursor GmbH, Kelheim, Germany	EUR	25,000	51
European Carbon Fiber GmbH, Kelheim, Germany	EUR	25,000	95
Hahl Group GmbH, Munderkingen, Germany	EUR	30,000	100
Hahl Filaments GmbH, Munderkingen, Germany	EUR	25,600	100
Hahl Verwaltungsgesellschaft mbH, Munderkingen, Germany	EUR	25,600	100
Hahl Extrusions Ltd., Durham, UK	GBP	1,062,555	100
Hahl RecyTec GmbH, Rottenacker, Germany	EUR	25,000	100
Hahl Filaments s.r.o., Sezimovo Ústí, Czech Republic	CZK	5,000,000	100
Hahl Inc., Lexington, SC, USA	USD	100	100
LENO Electronics GmbH, Lenzing, Austria	EUR	40,000	55
Lenzing Beteiligungs GmbH, Lenzing, Austria	EUR	35,000	100
Lenzing Fibers (Shanghai) Co., Ltd., Shanghai, China	USD	200,000	100
Lenzing Fibers GmbH, Heiligenkreuz, Austria	EUR	363,364	100
Lenzing Fibers Holding GmbH, Lenzing, Austria	EUR	35,000	100
Lenzing Fibers (Hong Kong) Ltd., Hong Kong	HKD	16,000,000	100
Lenzing Fibers Inc., New York, USA	USD	10	100
Lenzing Fibers Ltd., Manchester, UK	GBP	130,233,265	100

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Investment	Currency	Common stock	Ownership interest in %
Fully consolidated companies:			
Lenzing Holding GmbH, Lenzing, Austria	EUR	35,000	100
Lenzing (Nanjing) Fibers Co., Ltd., Nanjing, China	USD	37,000,000	70
Lenzing Plastics GmbH, Lenzing, Austria	EUR	35,000	100
LP Automotive GmbH, Lenzing, Austria	EUR	35,000	100
Lenzing Services Ltd., Nottingham, UK	GBP	1,000	100
Lenzing Technik GmbH, Lenzing, Austria	EUR	35,000	100
Lenzing USA Inc., Lexington, SC, USA	USD	100	100
Lyocell Holding Ltd., Manchester, UK	GBP	1,000	100
Pedex GmbH, Wald-Michelbach, Germany	EUR	25,000	100
Pedex Grundstücksgesellschaft mbH, Wald-Michelbach, Germany	EUR	25,000	100
Penique S.A., Panama	USD	5,000	100
PT. South Pacific Viscose, Purwakarta, Indonesia	IDR	72,500,000,000	85.79
Pulp Trading GmbH, Lenzing, Austria	EUR	40,000	100
Tencel Holding Ltd., Manchester, UK	GBP	1	100
Tencel Holding Overseas Ltd., Jersey, Channel Islands	GBP	1,001	100
Companies accounted for at equity:			
RVL Reststoffverwertung Lenzing GmbH, Lenzing, Austria	EUR	36,336	50
WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H., Wien, Austria	EUR	36,336	25
EQUI-Fibres Beteiligungsgesellschaft mbH, Krefeld, Germany	EUR	2,000,000	35
LKF Tekstil Boya Sanayi ve Ticaret A.S., Istanbul, Turkey	TRL	200,000	33.34

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## Notes

### Note 42. Corporate bodies

#### Members of the Supervisory Board

**Karl Schmutzer, Vienna**

Chairman (until 1 February 2008)

**Walter Lederer, Vienna**

Deputy Chairman

**Horst Bednar, Vienna**

**Hermann Bell, Linz**

**Martin Payer, Leoben** (from 15 June 2007)

**Veit Sorger, Vienna**

#### Works Council Representatives

**Rudolf Baldinger**

Chairman of the Company's Works Committee

Chairman of the Blue-Collar Workers' Council

**Helmut Maderthaner**

Deputy Chairman of the Company's Works Committee

Chairman of the White-Collar Workers' Council

**Johann Schernberger**

Deputy Chairman of the Blue-Collar Workers' Council

#### Members of the Management Board

**Thomas Fahnemann**

Chairman

**Christian Reisinger**

**Peter Untersperger**

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## Note 43. Statement of the management board in compliance with section 82 (4) of the Austrian Stock Exchange Act and release of the consolidated financial statements

The Management Board declares that the consolidated financial statements of the Lenzing Group for the financial year from 1 January 2007 to 31 December 2007 at hand, which were compiled in accordance with International Financial Reporting Standards (IFRSs), present fairly, in all material respects, the financial position and the financial performance of all consolidated companies.

The management report at hand, too, presents fairly, in all material respects, the financial position and the financial performance of the Lenzing Group and provides information on the course of business and the impact of essential risks and uncertainties on the business activities of the Lenzing Group.

The present consolidated financial statements were released on 10 March 2008 by the Management Board for examination by the Supervisory Board, for submission to the Shareholders' Meeting and for subsequent publication. The Supervisory Board is entitled to initiate changes to the consolidated financial statements within the framework of its supervisory duty.

Lenzing, 10 March 2008

### The Management Board:

**Thomas Fahnemann**

**Christian Reisinger**

**Peter Untersperger**

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## Development of Fixed Assets

	Costs							
	as at 01/01/2007 EUR '000	Acqui- sition of sub- sidiaries EUR '000	Transfer to operations classified as held for sale EUR '000	Additions 2007 EUR '000	Disposals 2007 EUR '000	Reclassi- fications 2007 EUR '000	Currency translation adjustment EUR '000	as at 31/12/2007 EUR '000
Development of intangible assets								
1. Concessions, industrial property rights and similar rights	24,770	4,189	(72)	4,173	(1,006)	23	(83)	31,994
thereof: internally generated	12,919	0	0	2,041	(918)	0	0	14,042
2. Goodwill	3,860	75,176	0	0	0	0	(6,292)	72,744
3. Prepayments	16	5	0	2	0	(23)	0	0
<b>Total for intangible assets</b>	<b>28,646</b>	<b>79,370</b>	<b>(72)</b>	<b>4,175</b>	<b>(1,006)</b>	<b>0</b>	<b>(6,375)</b>	<b>104,738</b>
Development of property, plant and equipment								
1. Land and buildings	214,266	12,121	0	16,556	(1,760)	20,500	(3,128)	258,555
2. Plant and machinery, fixtures, fittings and other assets	1,247,873	22,606	(52,464)	60,920	(8,913)	74,565	(15,897)	1,328,690
3. Prepayments and work under construction	85,012	268	(20)	55,076	0	(95,065)	(4,042)	41,229
<b>Total for property, plant and equipment</b>	<b>1,547,151</b>	<b>34,995</b>	<b>(52,484)</b>	<b>132,552</b>	<b>(10,673)</b>	<b>0</b>	<b>(23,067)</b>	<b>1,628,474</b>
Development of financial assets								
1. Investments in associates	2,267	0	0	0	0	0	0	2,267
2. Loans	1,200	0	(35)	243	(581)	(4)	0	823
3. Securities	45,579	17	0	251	(5,128)	0	0	40,719
<b>Total for financial assets</b>	<b>49,046</b>	<b>17</b>	<b>(35)</b>	<b>494</b>	<b>(5,709)</b>	<b>(4)</b>	<b>0</b>	<b>43,809</b>

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Accumulated depreciation and amortization

as at 01/01/2007 EUR '000	Transfer to operations classified as held for sale EUR '000	Depreciation 2007 EUR '000	Write-ups 2007 EUR '000	Disposals 2007 EUR '000	Reclassifi- cations 2007 EUR '000	Currency translation adjustment EUR '000	as at 31/12/2007 EUR '000	Carrying amount as at 31/12/2007 EUR '000	Carrying amount as at 31/12/2006 EUR '000
17,727	(37)	1,634	0	(455)	0	(28)	18,841	13,153	7,043
8,241	0	753	0	(367)	0	0	8,627	5,415	4,678
0	0	0	0	0	0	0	0	72,744	3,860
0	0	0	0	0	0	0	0	0	16
<b>17,727</b>	<b>(37)</b>	<b>1,634</b>	<b>0</b>	<b>(455)</b>	<b>0</b>	<b>(28)</b>	<b>18,841</b>	<b>85,897</b>	<b>10,919</b>
126,875	0	7,334	0	(158)	0	(886)	133,165	125,390	87,391
794,310	(42,712)	61,488	0	(7,817)	0	(8,764)	796,505	532,185	453,563
(11)	0	46	0	0	0	0	35	41,194	85,023
<b>921,174</b>	<b>(42,712)</b>	<b>68,868</b>	<b>0</b>	<b>(7,975)</b>	<b>0</b>	<b>(9,650)</b>	<b>929,705</b>	<b>698,769</b>	<b>625,977</b>
(7,507)	0	3	(2,781)	0	0	0	(10,285)	12,552	9,774
558	0	35	(2)	(363)	(1)	0	227	596	642
28,425	0	272	(2)	240	0	0	28,935	11,784	17,154
<b>21,476</b>	<b>0</b>	<b>310</b>	<b>(2,785)</b>	<b>(123)</b>	<b>(1)</b>	<b>0</b>	<b>18,877</b>	<b>24,932</b>	<b>27,570</b>



# Auditor's report

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## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Lenzing Aktiengesellschaft, Lenzing, for the financial year from 1 January 2007 to 31 December 2007. These consolidated financial statements comprise the balance sheet as at 31 December 2007, and the income statement, the statement of changes in equity and cash flow statement for the year ended 31 December 2007, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing (ISA), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appro-

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priateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

Our audit did not give rise to any objections. Based on the results of our audit, in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2007, and of its financial performance and its cash flows for the financial year from 1 January 2007 to 31 December 2007 in accordance with International Financial Reporting Standards as adopted by the EU.

### Report on the Consolidated Management Report

Laws and regulations applicable in Austria require us to perform audit procedures whether the consolidated management report is consistent with the consolidated financial statements and whether the other disclosures made in the consolidated management report do not give rise to misconception of the position of the group.

In our opinion, the consolidated management report for the group is consistent with the consolidated financial statements.

Vienna, 10 March 2008

**Deloitte.**

Eidos Deloitte  
Chartered Accountants  
and Tax Consultants

**Nikolaus Schaffer**  
Chartered Accountant

**Robert Platzer**  
Chartered Accountant

# Report of the Supervisory Board

## on business year 2007

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To the 64th regular shareholders' meeting:

### Dear Shareholders

In the course of business year 2007, the Supervisory Board of Lenzing AG was informed by the Management Board on the company's activities on the occasion of four meetings. The further strategic development of the company, as well as major business transactions and measures were discussed with the Management Board and the required decisions were made. In the course of these meetings, the Management Board informed the Supervisory Board on the financial position of Lenzing AG and the Lenzing Group by means of detailed written reports. Moreover, the Chairman of the Supervisory Board and his deputy had the Management Board provide them with information on a regular basis. The Financial Audit Committee met once.

The financial statement and the management report of Lenzing AG for 31 December 2007 were audited by Eidos Deloitte Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH, Vienna, under the inclusion of accounting. The auditor confirmed that the financial statement is in accordance with legal regulations and presents fairly, in all material respects, the financial position of Lenzing AG as of 31 December 2007. The auditor further confirmed that the financial statement presents fairly, in all material respects, the financial performance of the business year from 1 January 2007 to 31 December 2007 in accordance with the generally accepted accounting principles of Austria, and that the management report is consistent with the financial statement.

Eidos Deloitte Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH, Vienna, audited the consolidated financial statements for business year 2007 that were compiled in accordance with International Financial Reporting Standards as adopted by the EU. It came to the opinion that the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and its financial performance and its cash flows for the financial year from 1 January 2007 to 31 December 2007 and that the management report is consistent with the consolidated financial statements.

The Financial Audit Committee at its meeting of 31 March 2008 gave its detailed attention to the audit reports and exhaustively discussed the audit results with the auditor. The Financial Audit Committee advised the Supervisory Board to recommend to the 64th Regular Shareholders' Meeting the reappointment of Eidos Deloitte Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH, Vienna as auditors for the 2008 accounts.

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In keeping with section 127 of the Austrian Stock Corporations Act, the Supervisory Board accepts the management report and approves the consolidated financial statements for 2007 which have thereby been established in keeping with section 125 (2) of the Austrian Stock Corporations Act. Moreover, the Supervisory Board accepts the consolidated financial statements and the management report of the Group prepared in accordance with sections 244 and 245a of the Austrian Companies Act.

The Supervisory Board also agrees to the distribution of profit as proposed by the Management Board. Accordingly, a dividend of EUR 51,450,000.00 will be distributed from the recognized net profit of EUR 51,470,519.85. This corresponds to EUR 14.00 per no-par share. The remaining profit of EUR 20.519,85 will be carried forward.

The Supervisory Board follows the advice of the Financial Audit Committee and will recommend to the 64rd Regular Shareholders' Meeting to appoint Eidos Deloitte Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH, Vienna, as auditors for the 2008 accounts.

The Supervisory Board thanks the Management Board and all staff members for their commitment and for the very good results achieved for the business year under review.

Vienna, 11 April 2008

**Walter Lederer**

Deputy Chairman of the Supervisory Board

# Long-term Comparison

		under IFRS					under US GAAP					
		2007	2006	2005	2004	2003	2003	2002	2001	2000	1999*	1998*
Sales and result												
Sales **	EUR mill.	1,260.5	1,042.6	942.6	871.1	747.2	622.0	625.6	622.7	599.4	550.2	547.5
Sales outside of Austria **	%	85.9	85.6	85.0	83.7	83.6	79.2	78.9	79.3	80.5	81.9	80.6
Income from operations (EBIT)/ Operating result **	EUR mill.	162.3	107.8	81.8	104.3	89.7	74.0	78.4	64.6	69.8	9.2	17.1
Financial result **	EUR mill.	(11.3)	(8.5)	(2.5)	(0.8)	(5.1)	4.0	(6.2)	0.8	(0.5)	(5.3)	(8.8)
Income before taxes and minority interest (EBT) **	EUR mill.	151.0	99.2	79.3	103.5	84.6	78.0	72.1	65.5	69.3	3.9	8.3
Income taxes **	EUR mill.	(32.8)	(10.4)	(18.6)	(26.0)	(20.8)	(17.0)	(23.0)	(19.9)	(23.0)	0.5	(2.7)
Net income	EUR mill.	117.6	88.4	60.7	77.5	63.7	60.5	49.2	45.6	46.7	4.3	5.6
Net income attributable to shareholders of Lenzing AG	EUR mill.	109.6	83.9	56.9	67.7	58.8	59.0	48.0	54.2	42.3	4.3	5.6
Cash flow												
Gross cash flow **	EUR mill.	203.6	146.9	120.4	128.5	115.9	104.0	101.9	86.5	37.1	60.9	70.1
Gross cash flow as percentage of sales **	%	16.2	14.1	12.8	14.7	15.5	16.8	16.3	13.9	6.2	11.1	12.8
Operating cash flow	EUR mill.	223.8	146.1	124.3	95.3	127.1	109.0	127.4	81.6	28.3	61.0	50.4
Free cash flow	EUR mill.	(36.4)	43.7	35.1	(36.2)	(11.3)	(16.0)	85.2	59.1	(9.4)	22.4	47.8
Capital expenditure ** (Intangible assets, property, plant and equipment)	EUR mill.	136.7	104.1	82.4	60.9	139.2	131.0	42.0	66.7	41.0	39.0	38.6
Assets structure ***												
Non-current assets	%	62.1	63.0	63.5	64.9	60.8	63.1	63.6	65.0	59.4	62.0	63.2
Current assets	%	37.9	37.0	36.5	35.1	39.2	36.9	36.4	35.0	40.6	38.0	36.8
Total assets	EUR mill.	1,308.6	1,061.7	1,010.1	946.1	897.1	809.0	688.7	685.9	690.5	687.7	689.3
Capital structure ***												
Adjusted Equity <sup>1)/</sup> Equity	%	44.8	51.1	48.0	48.7	45.1	49.6	51.1	45.6	39.3	33.7	33.3
Post employment benefits	%	6.3	7.0	7.2	6.7	7.4	7.5	8.7	8.6	8.3	19.1	19.0
Liabilities (excl. post employment benefits)	%	48.9	41.9	44.8	44.5	47.5	42.9	40.2	45.8	52.4	47.2	47.7
Key data												
Return on sales (ROS) <sup>2)</sup>	%	10.6	7.8	6.5	8.8	10.3	10.0	8.8	7.7	10.5	1.5	3.1
Return on capital employed (ROCE) <sup>3)</sup>	%	17.5	11.9	9.0	12.2	14.3	13.7	13.1	11.7	15.5	2.0	3.9
Return on equity (ROE)	%	20.8	17.2	12.8	17.9	17.0	15.8	14.5	18.6	16.8	1.9	2.5
EBIT <sup>4)</sup> **	EUR mill.	162.3	107.8	81.8	104.3	89.7	74.0	78.4	64.6	69.8	9.2	17.1
EBIT margin **	%	12.9	10.3	8.7	12.0	12.0	11.9	12.5	10.4	11.6	1.7	3.1
EBITDA <sup>5)</sup> **	EUR mill.	229.3	169.3	141.6	160.4	134.8	116.0	121.4	102.0	107.6	61.3	65.6
EBITDA margin **	%	18.2	16.2	15.0	18.4	18.0	18.6	19.4	16.4	18.0	11.1	12.0
Earnings per share	EUR	29.8	22.8	15.5	18.4	16.0	16.2	13.1	14.8	11.5	1.2	1.5
Number of employees at year-end		6,043	5,044	4,860	4,845	4,523	3,058	3,365	3,282	3,216	3,166	3,226

## under IFRS

1) = Equity incl. grants less proportionate deferred taxes

2) = NOPAT (= Income from operations (EBIT) less proportionate income taxes)  
sales

3) = NOPAT  
(The average of stockholders' equity and minority interests  
+ Interest bearing debt  
- Cash  
- Investments  
- Current and non-current securities and loans]1/1+31/12)/2

4) = Income before taxes and financial result

5) = EBIT + amortization of intangible fixed assets and depreciation of property, plant and equipment less revenues from investment grants

## under US GAAP

2) = NOPAT (= Income from operations (EBIT) less proportionate income taxes)  
sales

3) = NOPAT  
(The average of stockholders' equity and minority interests  
+ Interest bearing debt  
- Cash  
- Investments  
- Current and non-current securities and loans]1/1+31/12)/2

4) = Income before taxes, minority interest and financial result

5) = EBIT + amortization of intangible fixed assets and depreciation of property, plant and equipment

\* LUSAC Group shown as continuing operation

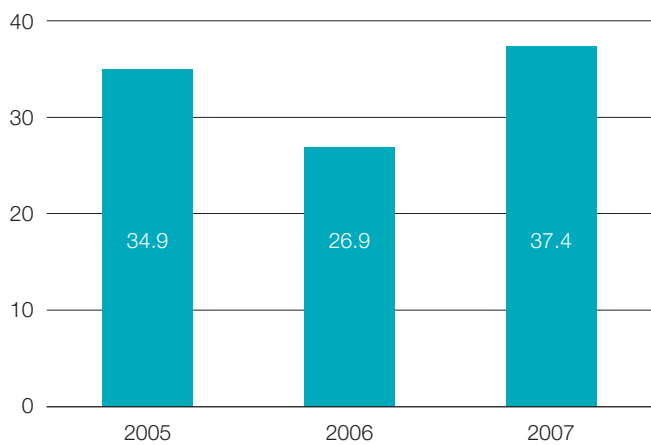
\*\* from continuing operations; comparative figures in 2006 were adjusted

\*\*\* Offsetting deferred taxes in fiscal year 2001 resulted in an adjustment of the comparative figures 1998–2000.

# Key Data

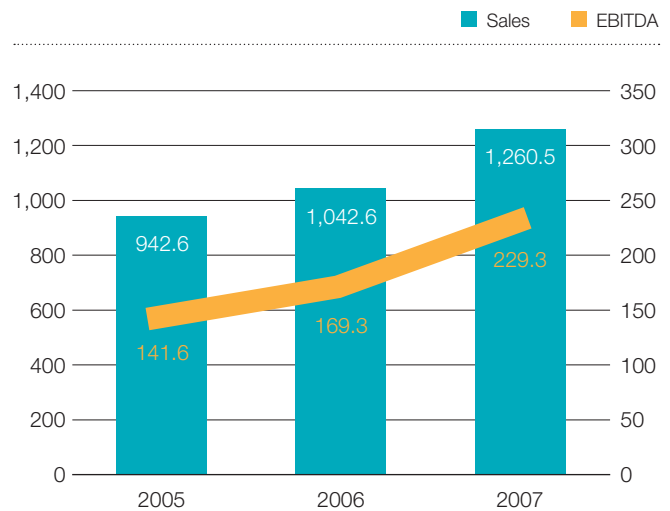
of the Lenzing Group according to IFRS

## Net Gearing in %

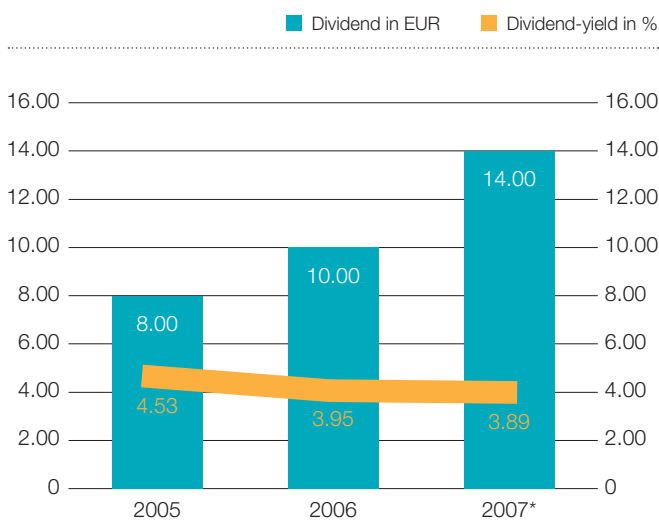


## Sales compared to EBITDA

EUR mill.

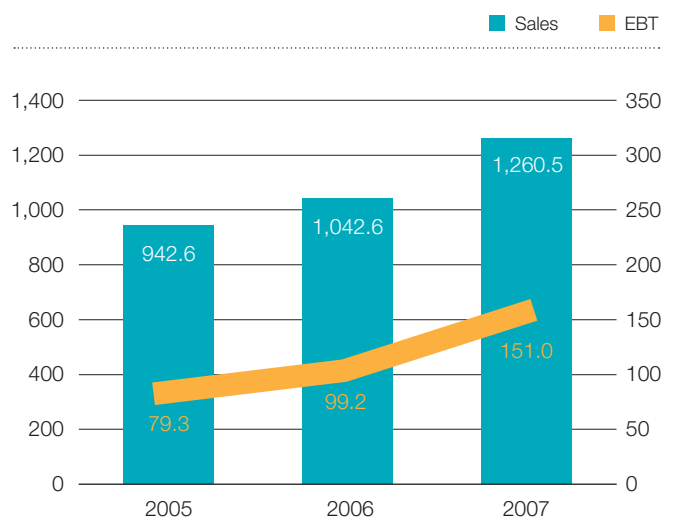


## Dividend



## Sales compared to EBT

EUR mill.



\* Proposal

## Business Results

EUR mill.	2005	2006	2007
Sales *	942.6	1,042.6	1,260.5
EBITDA *	141.6	169.3	229.3
EBITDA margin in % *	15.0	16.2	18.2
EBIT *	81.8	107.8	162.3
EBIT margin in % *	8.7	10.3	12.9
EBT *	79.3	99.2	151.0
Net income attributable to Shareholders of Lenzing AG	56.9	83.9	109.6

## Financing Structure

EUR mill.	2005	2006	2007
Cash and cash equivalents	85.1	97.0	119.6
Inventories	124.1	123.9	174.3
Receivables	159.4	171.9	191.8
Liabilities	271.3	275.9	383.0
Net debt	169.0	145.9	219.6
Retained earnings	343.8	402.7	474.7
Net Gearing in %	34.9	26.9	37.4

Capital Expenditure  
(Intangible assets, property, plant and equipment)

EUR mill.	2005	2006	2007
Capital expenditure *			
Lenzing AG	63.5	39.9	75.6
Group total	82.4	104.1	136.7
Group depreciation and amortization *	64.1	65.7	70.5

## Cash flow

EUR mill.	2005	2006	2007
Gross cash flow *	120.4	146.9	203.6
Operating cash flow	124.3	146.1	223.8
Net increase (+)/decrease (-) in cash	14.9	13.0	25.5
Cash and cash equivalents	85.1	97.0	119.6

## Capital Structure

EUR mill.	2005	2006	2007
Liabilities (w/o post employment benefits)	452.3	444.4	640.3
Post employment benefits	73.0	74.4	81.9
Adjusted equity	484.8	542.9	586.4
ROCE in %	9.0	11.9	17.5
ROE in %	12.8	17.2	20.8

## Stock Exchange

EUR	2005	2006	2007
Common stock in mill.	26.7	26.7	26.7
Market capitalization in mill.	648.6	930.3	1,323.0
Share price as at 31 Dec.	176.5	253.1	360.0
Earnings per share	15.48	22.83	29.83

## Production

in 1,000 tons	2005	2006	2007
Production Fibers total	453.8	478.1	523.1
Production Paper	74.7	78.9	82.9
Production Plastics	17.4	20.0	27.2

\*) from continuing operations; comparative figures in 2006 were adjusted