ANNUAL REPORT 2008 of the Lenzing Group

www.lenzing.com

LEADING FIBER INNOVATION

A sustainable company – with every fiber

The concept of sustainability is simple. It is the harmonious balance of three dimensions: environment, society and entrepreneurial activity.

The implementation of sustainability, however, is a long and complex process. But the seemingly contradictory dimensions of environment, social responsibility and economy can be brought into harmony by putting competitive value creation, conservation of resources, social responsibility and a humane working world at the center of what we do.

Contents

Editorial by the Chairman of the Management Board

Peter Untersperger (48)
Peter Untersperger has been with the Lenzing Group for 24 years. He has held a number of leading managerial positions, including chairman of the Indonesian subsidiary PT. South Pacific Viscose during the time of the Asian crisis in the late 90ies and has been head of finance from 1999 onwards. At the start of 2009 the lawyer and economist was appointed chairman of the management board. Peter Untersperger was born and raised in Upper Austria where he lives with his wife and his four children.

The business year 2008 was a year of important challenges and decisions concerning the future of the Lenzing Group.

The most critical event was the financial crisis triggered in the USA. Its impact spread throughout all industries and across all regions of the globe at unprecedented speed. The shock caused a sudden slump of global trade and the real economy with a correspondingly negative effect on the fiber industry, known for its sensitivity to cyclical fluctuations. The strong rise and subsequent sharp and fast drop in raw material and energy prices contributed to the overall effect. All in all, the global economy experienced significant change in the second half of 2008 – in a manner unforeseen at the end of 2007.

Looking back, Lenzing mastered the extreme volatility of its markets and that of raw material and energy prices very well. Despite these challenging conditions we managed to achieve the second-best operating result in the history of our company and we maintained satisfactory yield margins.

The good results enabled Lenzing to advance our long-term growth strategy for our two core segments, fibers and plastics. In the fiber business we improved our market position, globally as well as in key regions. In a market environment characterized by extreme volatility, Lenzing in particular played to its strengths – highly innovative products, best quality, delivery reliability and service levels second to none in our industry. All these are appreciated by customers in times as difficult as these. New market rules are in the making. The Lenzing Group will actively contribute to shape these and make the most of the new opportunities before us.

The emphasis in our plastics business has been on consolidating and optimizing recent acquisitions. To improve intra-group synergy, we have created two new business units, “Filaments” and “Performance Products” to provide fresh focus.

Our group is well prepared for the undoubtedly difficult environment we will have to operate in. Before the end of 2008 we had already reacted to the changing market reality by aligning production to demand and by starting a comprehensive cost optimization program in all business units and at all our sites. Initial results are expected to be positive.

Our goals for 2009 are:

- To show our market strength, to make use of opportunities, to enhance our market position.
- To optimally adjust production capacity to demand with a maximum of flexibility – market drives production.
- To utilize production capacity at the Lenzing site to a maximum.
- To support our customers by providing them with highly innovative products.

At the start of this business year we find ourselves in a very difficult economic situation, but we are confident that we will see a stabilized global economy by the end of 2009, after the shock of the financial crisis has been absorbed. Therefore we are already now preparing ourselves for the coming upturn and we are determined to use and shape forthcoming opportunities in a proactive way.

A very important milestone of 2008 was the decision of UniCredit Bank Austria to sell its profit participation rights in B & C Holding to the B & C Group. This group has been the majority shareholder of Lenzing AG for years and has always supported, and ultimately rendered possible, the successful development of our group. It will continue to be the guarantor of our expansion.

This decision has ended years of speculation on change of ownership. Lenzing can now rely on the B & C Group as an Austrian key shareholder with a long-term perspective on sustainable corporate development instead of short-term profit considerations at the center of its interest. In these difficult times, this certainty is of decisive importance to the management board, all employees and all other stakeholders.

The support of the state of Upper Austria in facilitating this model cannot be over-emphasized. Its government and state parliament have shown vision in industrial policy and enabled this unique solution in Austria.

In closing, I want to thank all our customers for their continued excellent partnership, all our employees for their dedication to both our company and our customers, and our shareholders for the trust placed in us.

Yours sincerely,

Peter Untersperger

The Lenzing Group

Leading Fiber Innovation

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 cellulose fibers to special plastic polymer products.

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 strength. Lenzing is committed to the principles of sustainable management and very high environmental standards. Lenzing's core business in fibers and plastics is complemented by our activities in business field engineering.

International Fiber Markets

China

- No. 1 exporter of textiles
- Annual viscose staple fiber consumption about 1 million tons/year
- 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 production market for exports

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

Japan

- Highly developed market for textile and nonwovens specialties

Korea

- Innovative specialty market

Pakistan

- Important production market for exports

Eastern Europe

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

Israel

- Continuous expansion of nonwovens capacity

Potential future markets:

Vietnam

Syria

Egypt

Bangladesh

The Lenzing Group 2008

Production sites | Fiber

1 Lenzing
Austria

World's largest integrated pulp and viscose fiber production site

Annual capacity: 246,000 t of pulp
245,000 t of fibers

2 Heiligenkreuz
Austria

Lyocell fibers (Tencel®)

Annual capacity: 50,000 t of fibers

4 Grimsby
Great Britain

Lyocell fibers (Tencel®)

Annual capacity: 40,000 t of fibers

3 Purwakarta
Indonesia

Viscose fibers

Annual capacity: 155,000 t of fibers

5 Nanjing
China

Viscose fibers

Annual capacity: 60,000 t of fibers

Productions sites: Fiber Plastics Engineering

Offices: Fiber Plastics Engineering

6 Mobile

Alabama (USA)

Lyocell fibers (Tencel®)

Annual capacity: 40,000 t of fibers

Plastics

7 Lenzing, Austria

Thermoplastics, PTFE

8 Munderkingen, Germany

Bristles, monofilaments, abrasives

9 Affolterbach, Germany

Dental 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 competence center

Management Board

Christian Reisinger
Member of the Board

Friedrich Weninger
Member of the Board

Peter Untersperger
Chairman of the Board

Management Team

Management Board

Peter Untersperger
Chairman of the Board

Christian Reisinger
Member of the Board

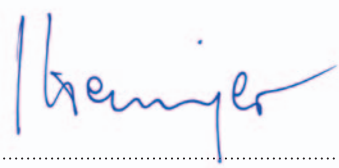
Friedrich Weninger
Member of the Board

Responsibilities

Peter Untersperger	Christian Reisinger	Friedrich Weninger
Corporate communications	Auditing	Business Unit Textile Fibers
Finance/IT	Business Unit Energy	Business Unit Nonwoven Fibers
Human resources	Business Unit Engineering	Business Unit Performance Products
Legal management	BZL – training center Lenzing	Business Unit Filaments
Risk management	Environment	Business Unit Pulp
Strategy	Infrastructure	
Wood purchasing	Purchasing	
	Safety	

Peter Untersperger

Christian Reisinger



Friedrich Weninger

Business Unit Heads

Textile Fibers
Dieter Eichinger

Nonwoven Fibers
Robert Gregan

Pulp
Johann Huber

Performance Products
Wolfgang Plasser

Filaments
David Hoyland

Engineering
Helmut Aigner

Engineering
Johann Weber

Energy
Gottfried Rosenauer

Products of the Lenzing Group

Textile Fibers

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.

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 practically 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 Tencel®
THE NEW AGE FIBER

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 Modal®
MAKES THE WORLD A SOFTER PLACE

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 make for the ecological advantages and ease-of-wear of this Lenzing fiber.

Areas of application:
- Woven and knitted garments

LENZING Viscose®
SETS THE INDUSTRY STANDARD

Lenzing FR®

The strong points of heat protection fiber Lenzing FR®, apart from 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 the protection from second and third degree burns.

Areas of application:

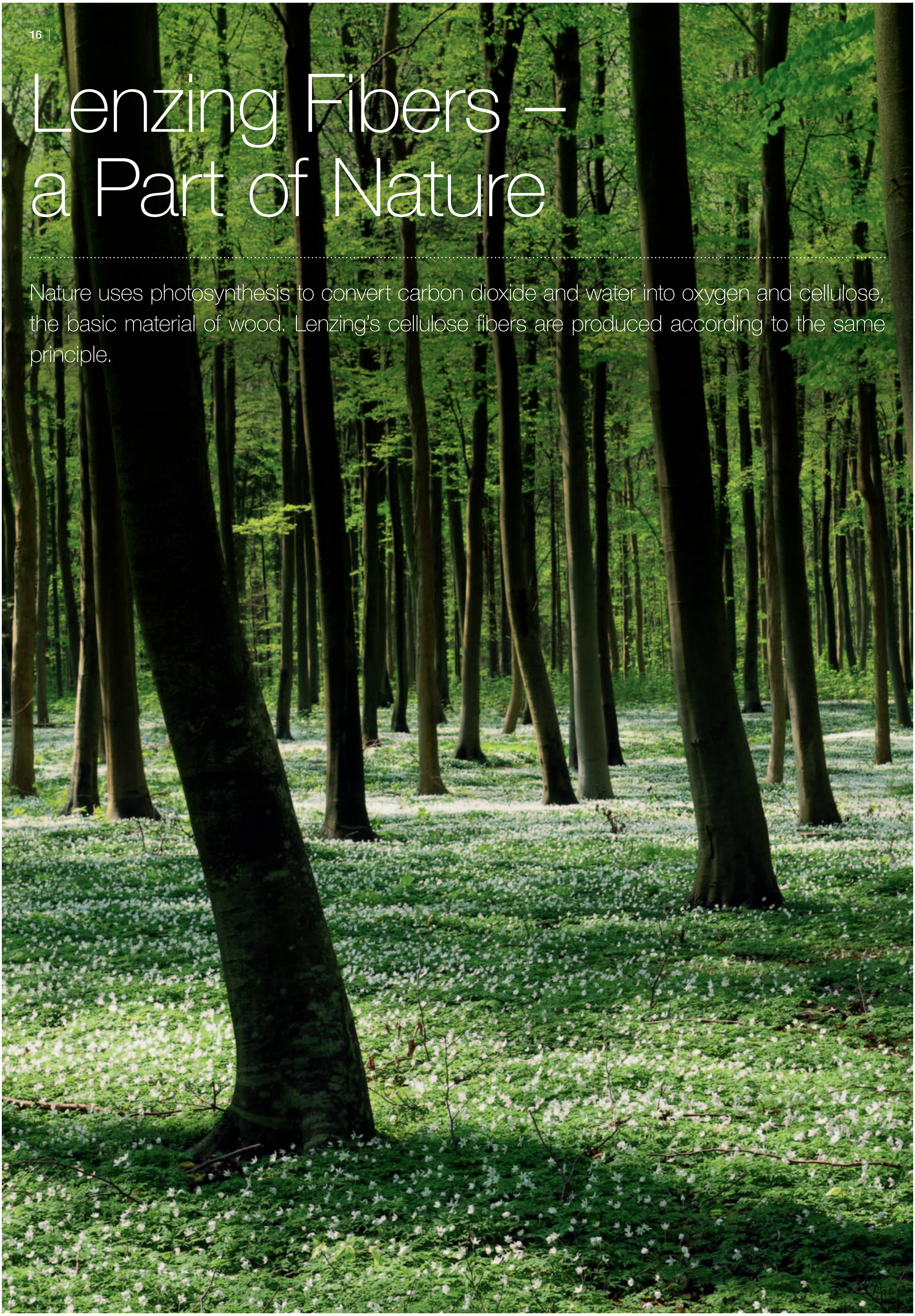
- Protective wear for industry, fire fighting and the military
- Flame resistant fabrics for public transport (airplanes, trains)
- Flame resistant fabrics for furniture
- Thermal insulation systems for protective jackets

Lenzing FR®
THE HEAT PROTECTION FIBER

Leading Fiber Innovation The innovation management of Business Unit Textile Fibers was awarded the first prize in the category Supporting Factors of the Best Innovator Award by A.T. Kearney, making Lenzing a member of Europe's group of top innovative companies.

Lenzing Fibers – a Part of Nature

Nature uses photosynthesis to convert carbon dioxide and water into oxygen and cellulose, the basic material of wood. Lenzing's cellulose fibers are produced according to the same principle.



Best of Beech

Lenzing Modal® – made from sustainably managed beech wood. A particular characteristic of this form of cultivation is natural regeneration – no planting, no irrigation, no pesticides. Beech forests are just natural.

Lenzing Modal® – makes the world a softer place: ideal for the fabrics closest to you.

Products of the Lenzing Group

Nonwoven Fibers

Lenzing nonwovens are used in a variety of fields: in sensitive applications (cosmetics, hygiene and medicine), for high-tech electronics and filter parts, as carbon fiber precursor and as fiber reinforcement in building materials and concrete slabs.

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.

Fields of application:

- Consumer products such as wipes for infant care
- Specialty wipes for cosmetic cleansing, household and industrial applications
- Medical products such as wound pads, surgical swabs and components of surgical gowns
- Tampons

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 the highest customer demands. Viscostar® complies with all legal requirements for this sensitive area of application.

LENZING Viscose®
SETS THE INDUSTRY STANDARD

Biological advantage Lenzing Viscose® and Tencel® are fully biodegradable because they are made from cellulose. They fully decompose in compost within twelve weeks.

This ecological feature was awarded the Compostable Logo in April 2008.

compostable

Leading fiber innovation The key to opening new markets: improving fiber properties for technical applications such as high-performance filtration, novel electronic components, composite materials and carbon fiber for high-temperature insulation.

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® represents the unique combination of efficiency, purity and softness. The production process of Tencel® is revolutionary: its process cycles are practically closed and emission is reduced to a minimum – resource conservation at its best.

Fields of application:

- Specialty wipes for cosmetic cleansing, household and industrial applications
- Medical products such as wound pads, surgical swabs and components of surgical gowns
- Filtration
- Special papers for electronic components
- Carbon fiber precursor

LENZING Tencel® THE NEW AGE FIBER

Dolanit® Type 10 and 18

Dolanit® is a high-strength special acrylic fiber optimized for technical applications. It improves not only physical product properties but also effectively facilitates processing.

Fields of application:

- Fiber reinforcement for concrete, mortar and bitumen, as well as for fiber cement.

Products of the Lenzing Group

Segment Plastics

Thermoplastics, PTFE and precursor for carbon fiber production are just some examples from the broad range of products manufactured by Lenzing Plastics. These 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 and construction materials.

The versatile portfolio features four categories of products:

Thermoplastics:

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 PTFE for a broad range of applications

Areas of application:
- Medical technology
- Textile architecture
- Hot gas filtration

Biodegradable plastics – basic material of the future Biodegradable plastics are going to become a genuine alternative to fossil-based plastics in several fields of application. Thinking sustainability, Lenzing soon discovered the potential of biodegradable materials for the production of new basic materials. On the one hand the innovative company provides the traditional and important market for garbage bag ties with biodegradable polymers, on the other it develops novel cellulose-based products. Both are part of Lenzing's core competence.

Innovative dental care The Pedex brand represents the comprehensive product portfolio of Lenzing Plastics' customized dental care filaments, manufactured from a variety of plastics materials. Numerous national and international patents protect the company's innovative products and technology. Innovative dental care filaments clean more efficiently and can be equipped with antibacterial and other functional additives. Pedex today globally stands for innovative dental care filaments.

Filaments:

Innovative monofilament products from a broad range of different polymers

Areas of application:

- Abrasives for engineering and floor care
- Dental and personal care
- Brushes for technical and consumer applications
- Monofilaments for industrial, sports and consumer products

Fibers:

Special homopolymeric and copolymeric acrylic fibers

Areas of application:

- Car tops
- Sun shades and awnings
- Indoor and outdoor furniture

Precursor for carbon fiber production

Areas of application:

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

Products of the Lenzing Group

Segment Engineering

Engineering and Contracting

- Fiber and Environmental Technology
- Pulp Technology
- Separation

Mechanical Construction and Industrial Services

- Mechanical Construction and Industrial Services
- Sheet Metal Technology

Automation and Mechatronics

- Automation
- Electronics

Lenzing Energy

- Electricity
- Heat
- Utilities
- Disposal management

Lenzing Technik total solutions Industrial enterprises in the past had tried to coordinate the activities of their subcontractors on their own. Recently, however, interest in trouble-free one-stop shopping has been on the rise – and Lenzing Technik is the perfect provider of comprehensive service solutions. The company provides the full service range for successful industrial projects by offering consultancy, engineering, production, automatization and after-sales service. Lenzing Technik is all about “one face to the customer”.

Sustainability

The concept of sustainability is simple. It is the harmonious balance of three dimensions: environment, society and entrepreneurial activity.

The three dimensions of sustainability

The implementation of sustainability, however, is a long and complex process. But the seemingly contradictory dimensions of environment, social responsibility and economy can be brought into harmony by putting competitive value creation, conservation of resources, social responsibility and a humane working world at the center of what we do.

Lenzing living sustainability

The Lenzing Group is committed to the principle of sustainable development. Economic activity, conserving nature and social balance are all equally important to us.

As a growing, successful and dynamic company Lenzing is determined to face up to critical issues. In the textile industry as well as in nonwovens ecological issues are gaining momentum and importance. Customers throughout the supply chain want to know where raw materials come from and how sustainable they are because brand customers demand that the products they buy are produced in a sustainable way.

Lenzing and our fibers made from the renewable raw material wood play a special role in this process. Due to their botanic origin, Lenzing cellulose fibers combine interesting properties which provide them with a unique quality. The fact that the renewable raw material wood absorbs carbon dioxide and releases oxygen until harvested is an essential element of sustainable Lenzing products, as is the conservation of land and water resources.

Innovation as part of sustainable positioning

Lenzing is the global innovation leader and pacemaker of the cellulose fiber industry. The Lenzing Group combines decades of experience in the production and application of all types of cellulose staple fibers with the competence of an equally experienced producer of pulp. It is the only company worldwide that produces all generations of cellulose fibers: viscose, modal, and lyocell.

The Lenzing Group, irrespective of short-term economic cycles, continuously enhances its innovation lead by investment in the research and development of cellulose fibers that is above the average of our industry.

It is Lenzing's goal to maintain our lead in wood and cellulose fiber chemistry and to realize above-average innovation potential in the production and market side of the fiber and plastics industries. Innovative marketing strategies and a flexible organization with cross-functional teams create close partnerships and respond to the needs of a dynamic market.

Lenzing views innovation as a long-term process. Today's innovation will secure tomorrow's economic future. Therefore investment in research and development is seen as an investment in our own future. Lenzing is future-oriented and increases sustainable company value.

Sustainability as economic success

The debate on global warming has led to a rethinking in many major corporations. Corporate carbon footprint was a matter of concern to just a handful of companies only a few years ago. It is now leaving its mark throughout the mainstream economy. Com-

Sustainability

panies that adopt a sustainable approach naturally take the lead in their markets and gain a clear competitive edge.

The Lenzing Group is one of them: We have decades of experience in processing the renewable raw material wood. This expertise and changing raw material prices presented us with the opportunity to focus on how to optimize our resources and use them in a highly efficient way.

All across the Lenzing Group we think in terms of sustainability. Being a future-oriented company is about looking at the whole picture. Corporate decisions are taken as long-term decisions. The company's financial structure is conservative and making short-term profit at high risk is not part of Lenzing's corporate strategy. Our risk management ensures that risks are recognized in advance and that the appropriate countermeasures are put in place. This provides the Group with the ability to make positive use of opportunities and to generate long-term sustainable company value.

Responsibility for the environment

The Lenzing Group can look back over two decades of farsighted environmental policy with the key criterion of responsible and considerate use of available resources. Lenzing incorporates environmental considerations in all its management and investment decisions. New materials are tested for being environmentally safe and new products are tested for being ecologically compatible right from the beginning.

In the main, Lenzing makes products from renewable resources and our utilization rate is high. Exemplary ecological production and highly efficient energy generation are at the core of our production processes. Closed cycles and highly optimized processes enable the full utilization of the raw material, along with the generation of valuable by-products.

The natural origin of Lenzing cellulose fibers makes them botanic fibers. The basic raw material wood is climate-friendly and conserves resources, which is the basis for long-term gain of market share in global fiber markets.

Lenzing fibers are superior to natural fibers in other ways, too: per-acre fiber yield of Tencel® is four times higher than that of cotton while water consumption can be up to twenty times lower. The primary raw materials for Lenzing fibers, beech and eucalyptus, do not require any irrigation and can be cultivated on land that is not suitable for food production.

At the end of their life cycle, Lenzing fibers are fully degradable and thereby return back to the cycle of nature. Nonwovens made from Lenzing Viscose® and Tencel® are certified and registered as compostable according to DIN CERTCO. Only products made of biodegradable materials receive this certificate.

Responsibility for people

The commitment, creativity and skills of Lenzing's staff are the basis of the company's success. As a global enterprise Lenzing is committed to universal standards which exceed legal minimum requirements. They are reflected in these values:

- **Responsibility:** The Lenzing Group assumes responsibility for the well-being and development of its employees.
- **Entrepreneurial spirit:** Lenzing promotes creative thinking beyond work routine.
- **Value creation:** The Lenzing Group creates value by all its activities and uses resources effectively.
- **Openness and honesty:** Lenzing stands for broad-mindedness and respect. The company creates trust and honors its commitments.

The Group offers its employees a framework in which to meet professional and personal challenges in the best way possible. Supporting self-responsible action and promoting personal development are at the center of our approach. Both make the company a secure and attractive employer.

The Lenzing Group respects local culture and local ways of life in its host countries and strives to understand and appreciate them. Our aim is to improve the quality of life for everyone who gets involved with Lenzing and we are a good neighbor to all. We actively promote intercultural understanding at and among our eleven global production sites and offices.

More information on sustainability in the Lenzing Group is available in the brochure "Focus Sustainability" published in the fall of 2008.

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Management Report 2008

Management Report

General Market Environment

After the very good development of the global fiber economy in the first half of 2008 business cooled off markedly. All in all, the year was characterized by general uncertainty over the financial crisis starting in the USA as well as by extremely volatile raw material prices, causing the demand for chemical fibers for the textile processing industry to decline, in particular in Asia.

In China, the decline of domestic fiber demand was accelerated by a significantly firmer Yuan, restricted access to credit for the processing industry and temporarily lowered export discounts. Global consumer demand for end products declined and export potential for textile chain products decreased. These two factors put the Chinese fiber industry under double pressure. As a consequence, other Asian producers were confronted with increased competition from Chinese fibers in their traditional markets and Asian exporters from all stages of the textile chain reacted with an extremely aggressive pricing policy.

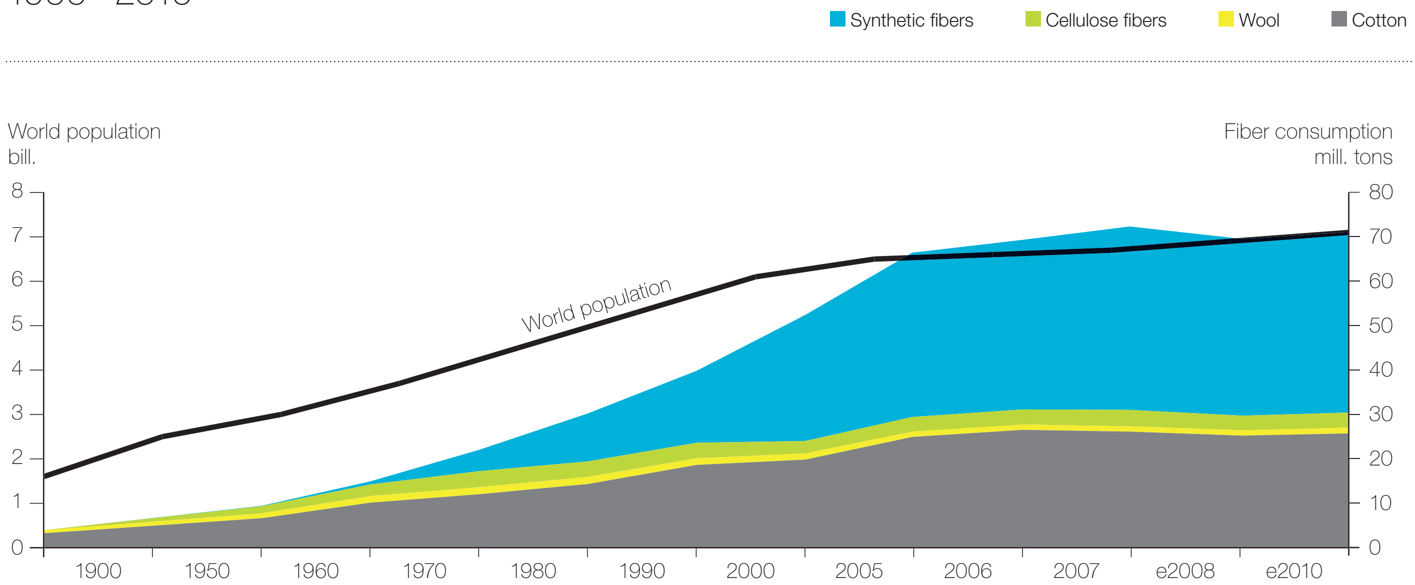
The European textile market, too, suffered from weak demand from the beginning of the second half-year on.

The European and North American nonwovens industry managed comparatively well, due to their innovative products and efficient sales and marketing organizations.

North American fiber demand declined due to lower consumption caused by the poor condition of the real estate and automotive business, which cut disposable consumer income.

World population and fiber consumption

1900–2010



Source: Lenzing AG

First decline of global fiber production in decades

According to preliminary estimates global fiber production in 2008 declined by 4.6% to 69 million tons (after a rise by 4.4% in 2007). The leading factor was the decline in the production of chemical fibers by 5.4% to 42.6 million tons.

Cotton production decreased by an estimated 3.4% to 25.2 million tons, despite the increased use of genetically modified cotton varieties. Among other factors, this decline is attributable to more arable land allocated to the production of food and biofuels. Wool production fell by 2.5%, due to significantly lower Australian production.

Despite the global decline, China's chemical fiber production grew by 0.3% to almost 24.0 million tons, resulting in a share in global production of 56% (2007: 53%) compared to only 22% in 2000. India's production declined by 11% to 2.5 million tons, that of Taiwan even by 18% and Japanese production by 10%. Production in Korea, Thailand and Indonesia decreased as well, but to a lesser extent. US fiber production is estimated to have fallen by a significant 15%, due to increased textile imports and the impact of the financial crisis. European manufacturers had to bear a decline by only 11%, due to their long-term strategic planning and their focus on quality products with higher margins.

Declining cellulose fiber production

In line with developments in the whole fiber industry, global production of man-made cellulose fibers (viscose staple fibers and viscose filaments) fell by 11.4% to 3.26 million tons (after a rise by 8% in 2007). Viscose staple fibers (including modal, excluding lyocell) at 2.19 million tons was 10% lower than the 2.43 million ton record production of 2007. China produced 1.18 mill. tons of cellulose fibers, a drop of 18%. The country nevertheless remains the world's biggest viscose fiber producer by far. In contrast, India's production fell by more than a quarter and Brazil's by even 60%. The decline in Taiwan (-13%), Indonesia (-8%), Thailand (-6%) and Japan (-2%) was less pronounced. Production in the Western half of Europe fell by 3.7%, mainly as a result of the insolvency of a North European company.

Fiber prices under strong pressure

In the course of 2008 cotton prices fell by more than a fifth over 2007, with an even more pronounced decline of almost one third from their (dollar-based) annual high. This trend gained momentum in the second half-year as a result of shrinking demand and the global slump of raw material and crude oil prices.

Prices for polyester staple fibers – the most important chemical fibers – were still rising at the beginning of the year and dropped abruptly by a third in the fourth quarter in China, due to massive excess capacity, declining demand and falling raw material prices. As a result, polyester staple fiber prices in Asia fell by 10 to 20% and European and North American prices declined by 15% and 8%, respectively.

Prices for standard viscose staple fibers, too, followed the global trend, although the prices of some raw materials remained at their high levels. The reasons, among others, were lower demand, excess capacity in China, but above all declining prices due to inter-fiber competition.

Management Report

Development of the Lenzing Group

In business year 2008, the Lenzing Group continued to consolidate its market position in cellulose fibers despite significantly worsening conditions in its economic environment. The company reported the second-best EBIT in its history. It benefited from the still very good market situation of the first two quarters of 2008. The third quarter showed the negative impact of the declining global economy on business development. Rising raw material prices put an additional strain on results.

Consolidated sales of reporting year 2008 rose to EUR 1.33 bill. (2007: EUR 1.26 bill.). This increase of almost 5.4% is above all attributable to capacitiy expansion at the Austrian sites Lenzing and Heiligenkreuz, the full-year operation of the Chinese site in Nanjing and the first full-year consolidation of the new acquisitions of Segment Plastics. On a segment basis, core business fibers earned 82.4% of consolidated sales, Plastics 13.6% and Engineering 3.9% (only external).

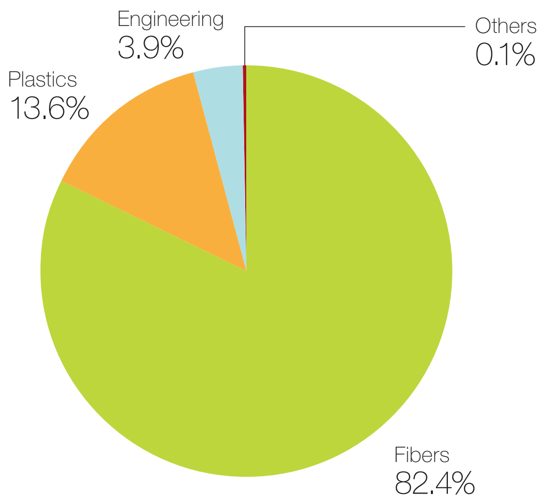
Cost of material and purchased services rose by 16.0% to EUR 823.0 mill. (2007: EUR 709.8 mill.). The above-average rise in relation to sales reflects the strong price increase of raw materials (chemicals, plastics and wood) and energy (natural gas). The good market development of the first two quarters of 2008 still allowed raw material price increases to be passed on to the market.

Personnel expenses increased by 6.5% to EUR 244.1 mill. (2007: EUR 229.3 mill.) as a result of further staff recruiting in Nanjing (China) and the acquisitions of Segment Plastics and their first full-year consolidation in 2008.

EBITDA declined by 12.4% to EUR 200.8 mill. (2007: EUR 229.3 mill.) due to the global economic slowdown and significantly weaker fourth-quarter fiber prices. EBIT fell by 19.7% to EUR 130.3 mill. (2007: EUR 162.3 mill.)

Lenzing Group:

Sales by segment
100% = EUR 1.33 bill.



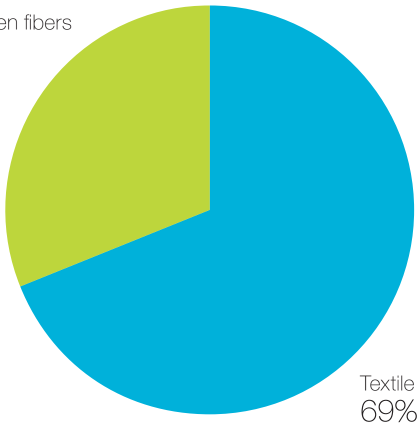
The volatile development of the financial markets, the impact of the strong US dollar and the continued dynamic investment activity of the Group led to a rise in the financing costs to EUR 24.5 mill. (2007: EUR 14.6 mill.). EBT declined to EUR 114.7 mill. (2007: EUR 151.0 mill.). All continuing business segments provided positive contributions to results.

The majority share in Business Unit Paper and control of the business were transferred to a group of investors around key shareholder Ernst Brunbauer (Gmunden, Austria) at the beginnning of March 2008.

Net income declined to EUR 78.7 mill. (2007: EUR 117.6 mill.). The share attributable to shareholders of Lenzing AG of EUR 77.7 mill. (2007: EUR 109.6 mill.) yielded earnings per share of EUR 21.15 (2007: EUR 29.83).

Lenzing Group: Core business fibers –

Sales distribution



Investment in capacity expansion

As in previous years, the Lenzing Group continued to secure the basis of its future growth by extensive investment activity. Investment in intangible assets, property, plant and equipment and financial assets came to a total of EUR 165.9 mill. (2007: EUR 266.8 mill.). The focus was on the complete renovation of a fiber production line at the Lenzing site, capacity expansion at the Heiligenkreuz site and above all the start of further expansion activity at PT. South Pacific Viscose in Indonesia. Further investment activity covered new production facilities in Segment Plastics and renovation and optimization projects in Pulp and Energy.

Unchanged: solid balance sheet structure

The balance sheet total of the Lenzing Group for the reporting year came to EUR 1.42 bill. (2007: EUR 1.31 bill.) and equity at the reporting date to EUR 579.7 mill. (2007: EUR 562.2 mill.). An equity ratio of 42.7%* at the reporting date (year-end 2007: 44.8%) again provides the Lenzing Group with a solid balance sheet structure. The equity ratio of Lenzing AG of 51.7% (2007: 52.0%) is remarkable. Net debt rose to EUR 365.4 mill. (2007: EUR 219.6 mill.) due to the company's continued strong investment activity.

Changes in the management board

At the end of the year 2008 Thomas Fahnemann at his own request retired from the position as chairman. The supervisory board of Lenzing AG appointed Peter Untersperger, previously head of finance, as the new chairman. Friedrich Weninger, previously head of Business Unit Textile Fibers, was appointed as a new member of the board.

*) Including government grants less proportionate deferred taxes

Lenzing Fibers – a Part of Nature

Cellulose – the building material of our flora and a renewable bio-polymer in abundance. The biological cycle generates forty billion tons every year. Less than one percent of it is used by the pulp industry.

The Botanic Alternative

A fragrant raw material: Tencel® is made from eucalyptus wood produced by sustainably managed forest plantations. As opposed to conventional cotton, irrigation and pesticides play no role in the cultivation of eucalyptus trees.

Intelligent water management is an important feature of plant ecosystems. Natural origin and ideal moisture management are two important features of Tencel® fibers. They absorb moisture as naturally as they release it – ideal for sportswear providing superior skin climate.

Management Report

Segment Fibers

The market environment of Segment Fibers was characterized by considerable volatility which had an impact on its business development. After a very good first half, declining margins had to be accepted in the second part of the year. Nevertheless, Lenzing succeeded in absorbing the decline of the market and achieved another very good result in this segment.

Segment sales came to EUR 1,107.9 mill. (2007: EUR 1,069.5 mill.). Segment EBIT was maintained at the high level of EUR 118.1 mill. (2007: EUR 148.4 mill.) and the EBIT margin was 10.7% (2007: 13.9%).

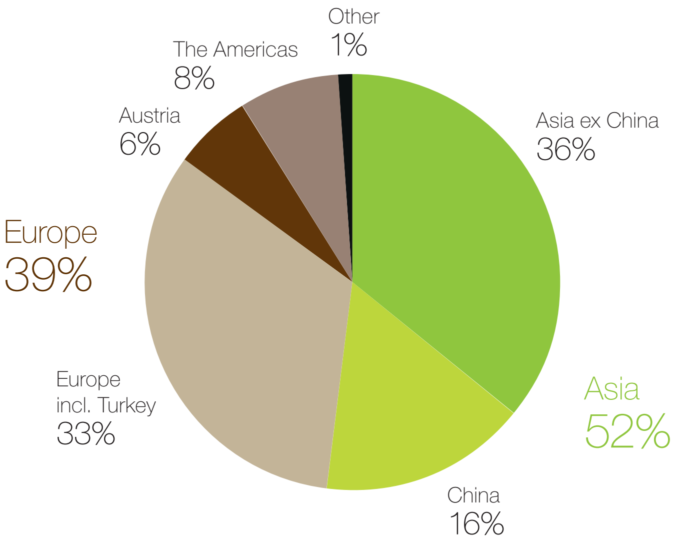
The growth in sales was a result of increased fiber production capacity, better fiber prices and another improvement of the product mix favoring up-market and top-market fiber varieties, such as Lenzing Modal®, Tencel®, Lenzing FR® and other special fibers. Results did not reach the level of record year 2007, above all a consequence of the unfavorable development of prices for wood and caustic soda. As opposed to the general trend, important raw materials for fiber production remained at a high level, despite the general decline of the economy in the second half of the year.

Segment Fibers consistently pursued its growth strategy throughout the business year.

Annual production capacity at the Lenzing site, especially for upmarket products, was raised further to a nominal capacity of about 245,000 tons of fibers per year with the construction of a new production line and by enhanced product flexibility. Lenzing's Tencel® site, Heiligenkreuz, saw the completion of an expansion program which increased production to now almost 50,000 tons per year. A comprehensive expansion program was started at the Indonesian subsidiary PT. South Pacific Viscose (SPV) to meet the market's demands of the next five to ten years. The program centers on the construction of a fourth fiber production line and further investment in environmental protection and infrastructure. With its completion in the first quarter of 2010 nominal production capacity will reach about 220,000 tons of fibers per year.

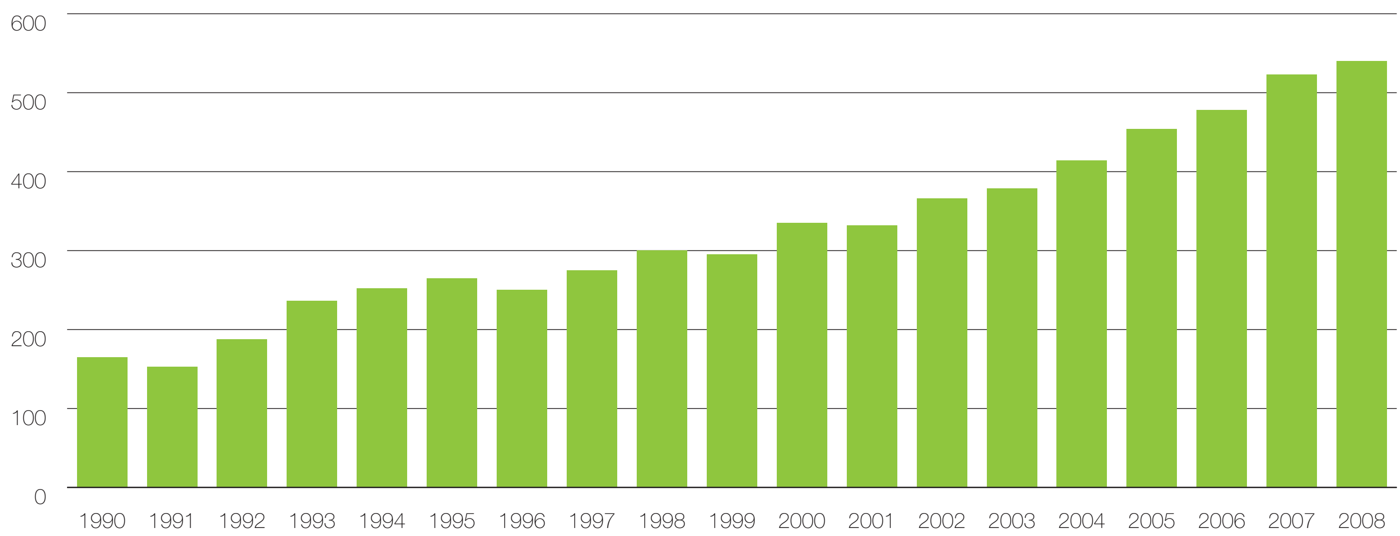
Segment Fibers:

Sales by region



Lenzing Group production

in 1,000 tons



The company's good global market position made it possible to run production at full capacity over long stretches of the year and to keep stock levels low. Lenzing was far more successful than its competitors, some of which had to cut back production already from the second quarter on. As a consequence of the fast economic decline in the fourth quarter in Asia, Lenzing adjusted production output to the market situation. Production at the Lenzing site, however, ran at full capacity throughout the business year.

Pulp supply was again secured in 2008, although in a highly volatile environment. The market is being continuously monitored and assessed.

Business Unit Textile Fibers

The year 2008 was a stormy year for Business Unit Textile Fibers. The first half-year was characterized by strong demand which permitted further price increases. Demand started to decline in the second half and affected the price structure of individual standard fiber product groups in the fourth quarter. Market success in special fibers had to be seen alongside rising pressure caused by raw material prices.

Tencel® and Lenzing Modal® are examples of innovative Lenzing products with high market acceptance which scored by ecological

Management Report

soundness. They enabled extended cooperation with brand name manufacturers focusing on sportswear and lingerie.

In home textiles, too, Lenzing realized cooperation with high-profile international retail chains. Tencel® Eco Bed, a special application for natural bed-linen, received the award as the best organic ecological product in the home textile sector in the USA.

The cooperation with the Dutch company TenCate (started in 2007) for the production of a new line of flame retardant uniforms for the US Armed Forces developed very well and was intensified. TenCate Defender™ M has become a special product with strong global demand. Lenzing's flame retardant fibers for protective wear met with rising success also in the industrial sector, such as the crude oil and plastics industry.

Outlook Business Unit Textile Fibers

Uncertainty over the further global economic development and consumer caution led to continued weak development of the fiber sector in the first weeks of business year 2009. Competitors cut back production and cotton and polyester prices declined. Moreover, the textile pipeline is still fairly well filled and a short term recovery of the fiber market is therefore not to be expected.

Lenzing has reacted to the new market situation by adjusting textile production capacity at its non-integrated sites. The Lenzing site is intended to be operated at full capacity as its production is geared to special fibers which are less susceptible to economic cycles and fashion swings. Focused innovation will continue to be a priority activity. The strategic momentum of actively shaping markets through continuous innovation and product development will be maintained, as well as the fundamental orientation of Business Unit Textile towards future expansion despite the difficult market of 2009.

Business Unit Nonwoven Fibers

The development of Business Unit Nonwoven Fibers in 2008 was good. Lenzing benefited from rising global demand for nonwoven products. Despite the difficult situation in the fiber market, especially from the fourth quarter on, quantity demand in the nonwovens market showed a stable development. Significant weakening, however, set in at the end of the year.

Lenzing Nonwovens again achieved a good result in 2008. Its business year was characterized by consistent development of its segments and segment strategy as well as the implementation of a new organizational structure close to the market. The business unit was reorganized into product groups: consumer products, speciality wipes, technical applications, tampons, and medical applications so as to be able to serve customers even faster and with even greater precision.

Consumer products and speciality wipes showed a general trend towards ecological products. Within the framework of several projects the specific individual properties of the fibers produced by Lenzing were clearly defined, leading to the recommendation of Lenzing fibers which gives the company a competitive market advantage.

Business Unit Nonwovens became an important supplier of technical applications to niche industries with strong growth prospects, for example by providing fibers for electronic components used in hybrid drives. It also took over the short-cut fiber business from Business Unit Filaments and thereby created the basis for future expansion in the fields of fiber enforced construction materials and special filter applications.

Product group medical applications manufactures upmarket cellulose fiber specialities. The focus of activity was placed on the successful implementation of innovative products, such as cellulose hydrogels for demanding wound care and also in cosmetics.

Lenzing and the US company Weyerhaeuser, a global leader in forestry products, came to a basic agreement on the development of novel lyocell-based nonwovens products. The goal is to create an alternative to petrol-based plastics in the nonwovens sector by manufacturing convenience products for industry and hygiene on an industrial scale.

Outlook Business Unit Nonwoven Fibers

The weak demand of year-end 2008 has hardly picked up with the beginning of 2009. Prices remain under pressure due to increased competition from manufacturers in Asia and falling prices for polyester and polypropylene.

A short-term recovery of the nonwovens market is not in sight.

Business Unit Pulp

Business Unit Pulp is responsible for the production of Lenzing's most important raw material at and for the Lenzing site. Its trading company, Pulp Trading GmbH, supplies the Group's sites lacking their own pulp production facilities with pulp from the market. The business unit also sells Lenzing's by-products generated as part of pulp and fiber production, such as acetic acid, xylose, furfural and sodium sulfate.

The sustained rise in the demand for dissolving pulp throughout 2007 led to extreme scarcity at the beginning of 2008 and prices reached a historic high in 2008. Demand then significantly declined in the second half of the year and the market turned, leading to a considerable decrease of pulp prices. The situation was intensified by the start-up of new production capacity. As a reaction to this development, pulp factories were closed down or cut-backs in production were announced. Due to excess capacity, none of the factories producing dissolving pulp supplying the free market were operating at full capacity by the end of 2008.

The Lenzing site

Pulp production at the fully integrated Lenzing site was increased from 237,000 tons to 246,000 tons. The supply with self-produced pulp for increased production demands was fully secured.

The raw material beech wood was in ready supply. The site benefited from two wind blasts which affected forestry in the site's neighborhood.

The output of by-products such as sodium sulfate, xylose, acetic acid and furfural developed in line with the increase in fiber production. The markets, especially for acetic acid, weakened only at the end of the year.

Outlook Business Unit Pulp

If demand remains as weak as presently, a further adjustment of the market is to be expected, especially through the reduction of production capacity in the northern hemisphere. This will lead to a new bottleneck situation at the latest when fiber demand will rise again.

The competitive situation in the market for the raw material wood in Central Europe makes the sustainable supply of the Lenzing pulp factory a primary objective. In view of the supply shortfalls with natural gas from Russia at the beginning of 2009, the importance of wood as an energy source has grown. The lack of legislation regulating the use of wood for energy generation will increase the competition for beech wood.

Production at the Lenzing site will be improved by the elimination of remaining bottlenecks. Moreover, pulp process development is working at improving pulp and by-product yield, quality, as well as at reducing energy input throughout the production process.

The supply of the Lenzing Group is secure, due to its own pulp factory and long-term contracts with international pulp producers.

Management Report

Business Unit Energy

Business Unit Energy is responsible for securing the optimum supply of the Lenzing Group with electrical power, process water, steam and cooling, and all other media required for production. The production of pulp and fibers is energy intensive and the task of the business unit is therefore of critical importance.

The sustained rise of energy prices culminated in a crude oil price of USD 150 per barrel at the middle of 2008. The price then declined in an extraordinary manner in the fourth quarter and led to price cuts in all forms of energy. Fuel prices, in particular for natural gas, as a rule follow crude oil prices with a delay of three to six months. The price situation of these fuels will improve accordingly in the course of 2009.

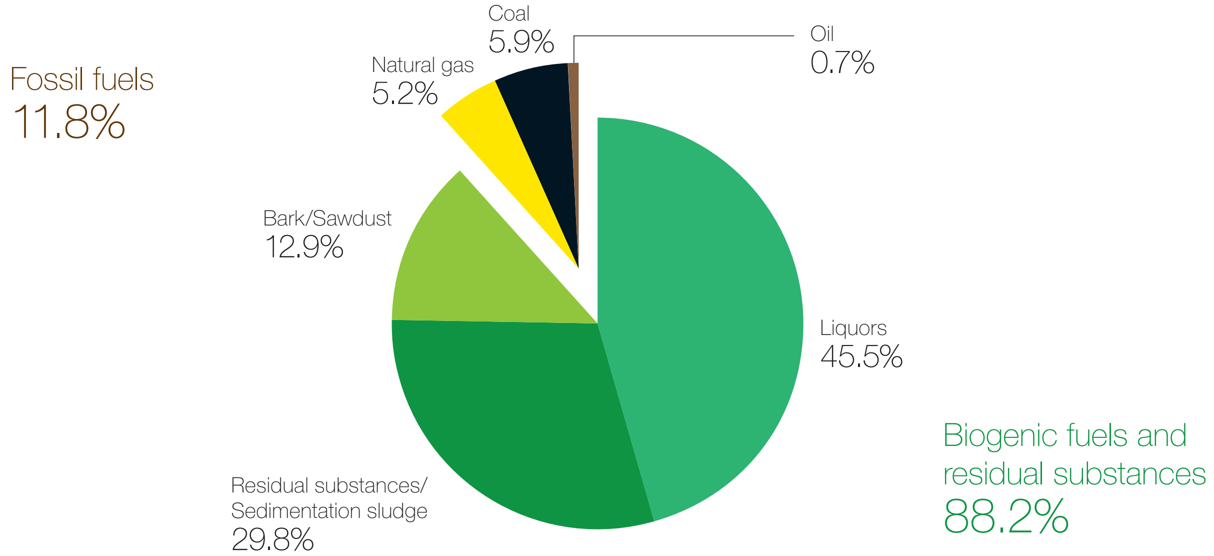
Project "Save Energy Year 2007" at the Lenzing site was concluded as a major success at the end of the year. Sustainable annual cost savings of about EUR 2 mill. were realized. The efforts of Lenzing AG in reducing CO_2 output received recognition by the Austrian government as part of its campaign 'klima:aktiv'. More energy saving measures will be implemented in 2009.

The performance of a steam turbine at the Lenzing site was successfully improved and the construction work of a new soda boiler is on schedule. It will be completed in 2009.

The Heiligenkreuz site adapted power plants and extended the cooling system to match increased fiber production.

Lenzing AG * fuel mix

Annual fuel input (2008): 12,776,726 GJ



Outlook Business Unit Energy

The Lenzing site will start up a new soda boiler in the fourth quarter of 2009 to secure pulp production and to again raise the share of biogenic fuels. The existing utility for the full demineralization of water will be extended to match increased production capacity.

At the Heiligenkreuz site, the regional natural gas supplier BEGAS is planning a plant for the combustion of residual waste for the cogeneration of pressurized steam and electricity. The intention is to supply Lenzing fiber production with process heat and electrical power.

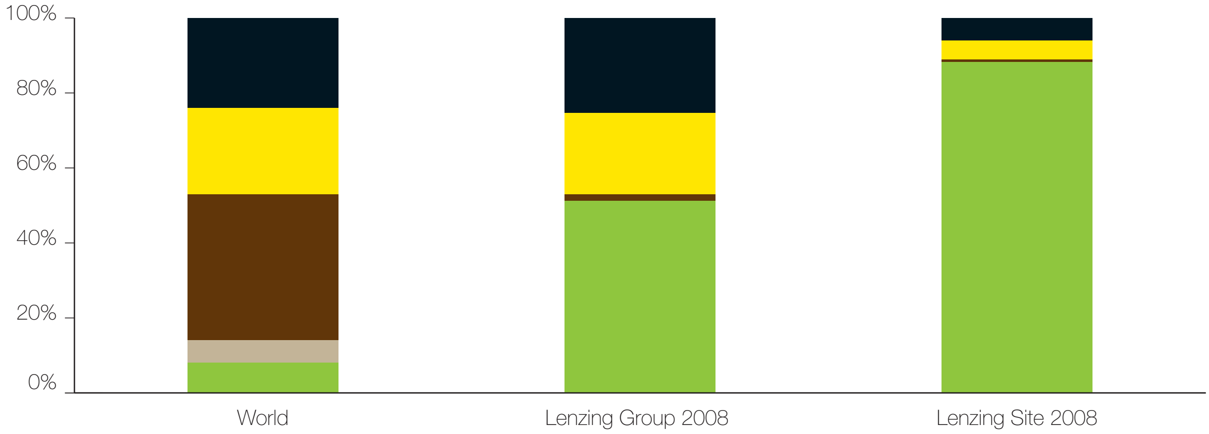
The Indonesian subsidiary PT. South Pacific Viscose will construct a new multifuel fluidized bed boiler with attached steam turbine as part of its fiber production expansion program. Start-up is scheduled for the end of 2009 or the beginning of 2010.

*) Including RVL

Management Report

Comparing energy sources

Global, Lenzing Group and Lenzing Site 2008 *



	World	Lenzing Group 2008	Lenzing Site 2008
Non-fossil fuels	8.0%	51.2%	88.2%
Nuclear	6.0%	0.0%	0.0%
Oil	39.0%	1.8%	0.7%
Gas	23.0%	21.6%	5.1%
Coal	24.0%	24.0%	5.9%

*) Including RVL

Segment Plastics

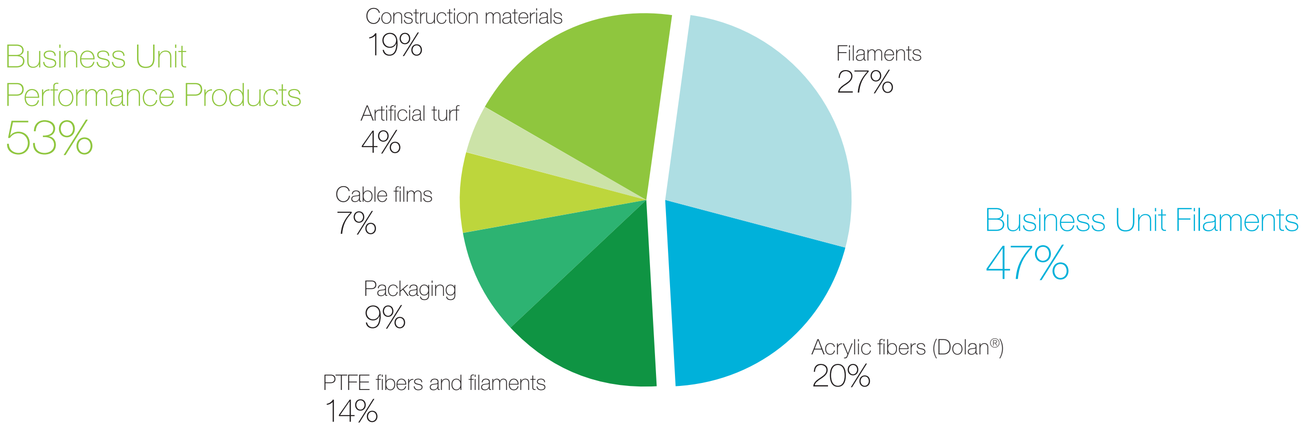
Segment Plastics in 2008 focused on integrating the acquisitions made in 2007. The overall organizational structure was improved and individual sites were optimized. The segment's structure was adapted to the strong growth in business volume and to market conditions by the creation of two units, Business Unit Performance Products and Business Unit Filaments.

The challenging market environment was characterized by the extreme volatility of individual raw material prices, such as for polyethylene and polypropylene. The strong upward trend until August was followed by the biggest decline in decades in the fourth quarter. Business started to slow down in several sectors from the middle of the year on, which led to lower production and price pressure. Lenzing Plastics reacted to the change in conditions by adjusting production output in the fourth quarter and by introducing short-time work in some sections of the German sites with the turn of business year 2008/2009.

Despite the difficult development of the industry, the business year of Segment Plastics was gratifying. Segment sales improved from EUR 133.1 mill. to EUR 182.2 mill. which was mainly due to the first full-year consolidation of its 2007 acquisitions. Segment EBIT came to EUR 7.3 mill. (2007: EUR 9.0 mill.). At the reporting date (31/12/2008) the segment employed a staff of 912.

Segment Plastics

Sales by market segment



Biodegradable Plastics – a Part of Nature

Not only potatoes can provide starch for biodegradable plastics – materials based on polylactic acid are being investigated and tested for marketability. Special know-how is required, as these materials are far more temperature-sensitive than thermoplastics and therefore require great care in processing

Potato Starch – Raw Material of the Future

Growing environmental awareness and increasing scarcity of resources lead to reconsidering and investigating traditional natural plastics materials. As a supplier of niche products with highest product quality and superior innovative power, Lenzing Plastics applies its expertise to the processing of bio-plastics.

Garbage bag ties based on potato starch are an innovative and ecological alternative to standard petroleum-based products.

Management Report

Business Unit Performance Products

Business Unit Performance Products is active in the business fields thermoplastics and polytetrafluoroethylene (PTFE).

The focus in thermoplastics is on films, technical fabrics, tapes, yarns and multilayer laminates. Special fabrics, MOPP* films, aluminum laminates and special products for the cable industry were in good demand. Films for construction declined due to weak demand from the European construction industry.

PTFE provides a broad range of yarns, fibers and films. Dental care (dental floss) and textile applications met with good success and sales of products for textile architecture were gratifying. The development of packaging yarns went according to plan.

Outlook Business Unit Performance Products

The market environment for thermoplastics is expected to remain difficult throughout 2009. One of the biggest markets, the construction industry, will benefit from the effects of the comprehensive economic recovery programs only after a certain delay. The unit will expand its presence in Eastern and South Eastern Europe and counter price pressure with product quality. In PTFE, the development of yarns is expected to remain stable. Marketing will be increased for dental floss and medical applications in the USA. All in all, increased marketing activity is expected to make for a good result in 2009.

Business Unit Filaments

Business Unit Filaments is active in three business fields: Synthetic filaments manufactures innovative products for dental care (toothbrush bristles) as well as monofilaments, industrial bristles and abrasives. Acrylic fibers produces high-quality acrylic fibers for special applications (sun sails, tops for convertibles). Precursor covers the manufacture of precursor for carbon fiber production.

Synthetic filaments successfully completed a restructuring program, optimized the organizational structure at its American Lexington site and opened a new production line for abrasives. In Europe, a shift of production to the Czech site at Plana is under way, management was reorganized and further restructuring plans were implemented.

Acrylic fibers (Dolan®) focused on its technical business sector and on outdoor applications. Accordingly, and to raise general market synergy, the Dolanit® short-cut fiber business (acrylic fibers for technical applications) was transferred to Business Unit Nonwoven Fibers as of 1 August 2008 and the filtration business became part of Business Unit Performance Products with the beginning of 2009.

Superior fiber properties and increased marketing activity raised the market share in sunshades, sun sails and other outdoor applications (furniture and boat tops) despite the difficult general conditions. Moreover, Dolan® Nano, a new waterproof and self-cleaning fiber was introduced to the market.

European Precursor GmbH (EPG) constructed the production facility for carbon fiber precursor. Production is expected to start in the second half of 2009.

*) Monoaxially oriented polypropylene

Outlook Business Unit Filaments

The current economic slowdown will have a negative impact on business development, particularly in the first half of 2009. But the restructuring and cost efficiency measures of 2008 put the business unit into a far more favorable position and will enable it to actively counter the challenging market conditions. Cost savings resulting from shifting part of production to the Czech Plana site will have a positive impact on results. Raw material and energy prices have been far lower since the end of 2008 and will help to ease the situation. Demand, however, will remain weak and affect margins and capacity utilization.

Business year 2009 will see the introduction of a new product, Dolan FR, which is to be marketed as a pure acrylic fiber as well as part of blends with flame retardant viscose fiber Lenzing FR®. Market share in established markets (Western Europe and USA) is to be expanded and new markets will be opened.

Innovation in 2009 will focus on lowering raw material cost by improving recycling processes.

Segment Engineering

Business Unit Engineering provides its global customers with products and services in engineering and contracting, mechanical construction and industrial services as well as in automation and mechatronics.

The business environment of this segment continued to be positive over long stretches of the year. The high readiness of the pulp and fiber industry to invest enabled a good volume of order bookings from the Lenzing Group itself, as well as from external customers. Business year 2008 therefore again was a successful one.

Total sales came to EUR 110.9 mill. (2007: EUR 119.0 mill.) of which EUR 51.3 mill. (2007: EUR 68.7 mill.) were generated by external sales. Segment EBIT came to EUR 10.0 mill. (2007: EUR 6.2 mill.). The company employed an average staff of 608 (2007: 550).

Engineering and Contracting

Engineering and contracting offers engineering and project services in mechanical construction and special-purpose machinery manufacturing for industrial customers and is active in the business fields fiber and environmental technology, pulp technology, as well as in separation technology.

The new business field environmental protection technology was successfully introduced to the market and focuses on biotechnological processes for waste air purification.

Pulp technology expanded its market position with global consulting and engineering projects.

Business field separation technology developed very well, due to new applications and the innovative enhancement of its product range. Especially major Asian projects for acetate film filtration contributed to the good result.

Management Report

Mechanical construction and industrial services

This business field offers the expertise of a contract manufacturer of demanding applications. Segment Engineering looks back on decades of experience in classic mechanical construction. Due to the segment's recent expansion, a new assembly hall was constructed at the Lenzing site.

Industrial services offers a broad range of services, from servicing single components to reconditioning complete plants for a variety of industries.

The business field as a whole generated a very good annual result. Product group sheet metal technology in its first full business year reached its set targets.

Automation and mechatronics

Automation again achieved good sales and results.

Product group electronics implements high level assemblies of devices and component groups mainly in medical technology.

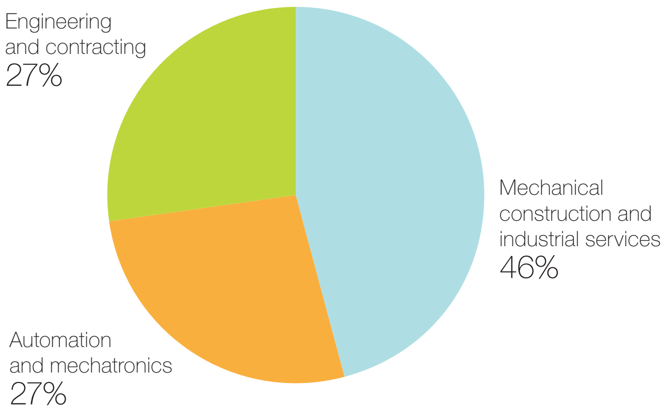
Outlook Segment Engineering

The order bookings for Segment Engineering continue to be good and demand in all business fields is high. Consistent enhancement of existing products and services as well as selective development of new products will contribute to a good development of the business in 2009.

Innovation in Business Unit Engineering will focus on further developing its biotechnological processes for waste air purification, its simulation program SIMEX for process simulation for the pulp and paper industry as well as its process control system XEA500.

Segment Engineering

Sales distribution



Risk Report

Current risk situation

The persistent turbulence of the global financial markets and its impact on the real economy will cause far-reaching changes in the company's sales markets. From today's perspective, scope and scale of these developments cannot yet be fully assessed.

Lenzing has continuously expanded its global leadership in fiber production and has created a new organization structure for itself. The company is therefore prepared to react fast in the face of new potential risk and to make the most of upcoming opportunity. Moreover, the company does not merely react to market changes but actively shapes its markets, cuts down time-to-market and continues to optimize its organizational structure.

Risk 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 operational 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.

Strategy of risk management

Lenzing has a four-step approach to risk management:

- **Analysis**
  Central risk management regularly conducts risk assessments at all production sites using the international COSO standards of likelihood and financial impact.

- **Mitigation**
  The potential impact of any evaluated risk is either minimized, fully eliminated or, in certain cases, intentionally undertaken.

- **Responsibility**
  The responsibility for managing the risks of a particular category is clearly assigned to a particular part of management.

- **Monitoring and control**
  Management holds regular meetings and discusses the development of risks and re-evaluates them at least once a year.

Management Report

Critical risks		Financial impact	Likelihood
Raw materials	Volatile prices may lead to lower product margins and trade loss	very high	high
Environment	Damage to property or persons may lead to legal claims Changes in legislation as risk as such	very high	moderate
Equipment	Failure of plants or parts critical to production may lead to loss of production	very high	moderate
Technology	Loss of technological leadership may have negative impact on competitive edge	very high	moderate
Market adaptation	Potential change in the market for dissolving pulp	very high	moderate
Market change	Changes in the respective political situation may endanger cashflow and result goals	very high	moderate
Exchange rate	Volatility may lead to real and balance sheet loss	high	high

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 work flows 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 to a lesser degree, for Nonwoven Fibers, is cyclical. It depends on global and regional economic conditions. Lenzing strives to minimize associated risks by increasing its international market presence as well as its local 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.

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 risks such as cyclones, earthquakes and floods is almost impossible. Exposed production sites are covered by corresponding insurance policies, as and if available on the market, to cover the major 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

The international business of the companies of the Lenzing Group exposes them to exchange rate risk. The risk for the Group's companies operating in the euro zone results above all from exports to the US dollar zone. It is largely contained by prospective hedging of the expected net exposure on an annual basis. Please refer to note 36.4 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.

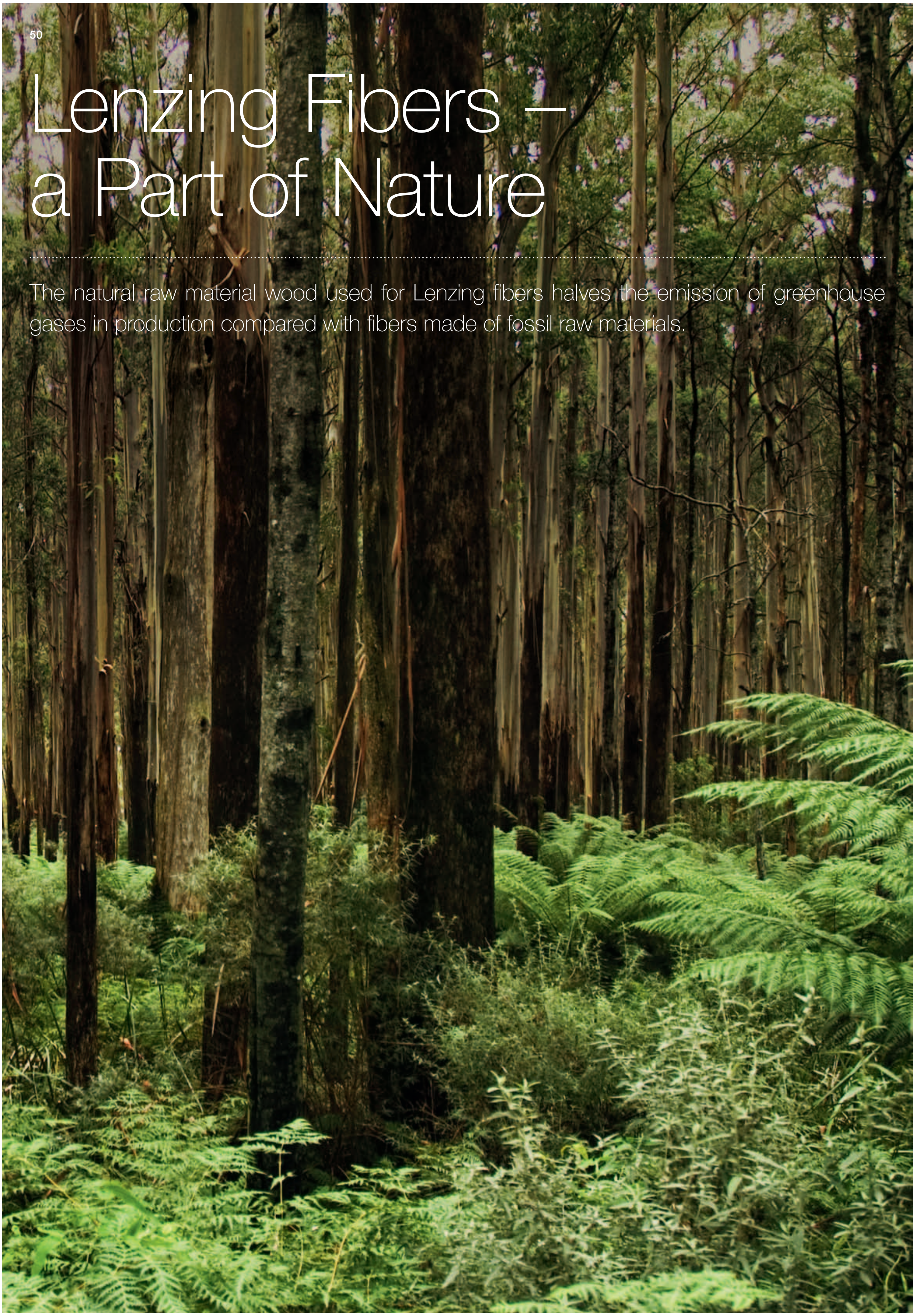
Financial instruments

Clearly documented guidelines have been developed and implemented by the management board on how to handle financial risks. These guidelines are continuously monitored.

The Lenzing Group 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 an active exchange of information between treasury, business units involved and recognized treasury experts in banking.

Lenzing Fibers – a Part of Nature

The natural raw material wood used for Lenzing fibers halves the emission of greenhouse gases in production compared with fibers made of fossil raw materials.



Fantastic Moisture Management

Filling materials made of Tencel® open a new era of natural sleep. Hydrophilic nano-fibrils act as microscopic capillaries in regulating moisture absorption and release – promoting a healthy way of sleeping.

Increased release of body moisture during sleep makes the moisture management of Tencel® a feature of prime importance.

Management Report

The risk of loss with regard to these instruments is relatively small, taking into account their spread and 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 40 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 relatively small.

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. Increased volatility until maturity is expected for some short-term financial instruments. Of the company's long-term liabilities 56.3% 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.

Cashflow risks related to financial instruments arise from fluctuations in their respective payment flows. 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, whenever required and advisable.

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

Balance Sheet Structure and Liquidity

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

As at 31 December 2008 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 year 2009.

Insurance

All of Lenzing's tangible assets and investments are insured at international renowned insurers against loss resulting from unforeseeable events such as fire, explosion, natural disasters and resulting business interruption. The company's policy is to bear frequency losses itself and to obtain sufficient coverage in the event of major loss.

Possible loss of accounts receivable is extensively covered by global credit insurance. The accounts are monitored regularly.

Research and Development

Lenzing's leadership in technology and innovation is based on the continuous development of its technology for the production of viscose, lyocell, and pulp, securing a considerable lead over its competitors. The company has been setting standards for all of the fiber industry for decades.

Research and development activity is concentrated at the Lenzing site, the internationally leading center of cellulose chemistry and cellulose fibers. The company, moreover, closely cooperates with external research institutes and universities specializing in wood and cellulose chemistry. Several pilot plants serve the development of specific fiber properties and general process research. Moreover, smaller projects are implemented at several of the smaller sites. Lenzing is dedicated to product development close to the market that addresses specific customer needs. To this purpose the research and development section of the Lenzing Group was integrated into the individual Business Units.

Expenses for research and development (calculated by the Frascati method) were EUR 18.8 mill. (2007: EUR 18.3 mill.).

The focus was on optimizing the pulping process and viscose fiber production. The pulping process was improved by means of modern analytics, process simulation and technology. Yet unresearched aspects of chemical wood pulping were clarified, providing new possibilities for optimizing yield and capacity increase.

Viscose production gained from processes offering significant improvement of process control, yield and emission values. As a consequence, waste from viscose production is now marketable as a product for the production of sulfate pulp.

The K1 Center "Bio-based materials research and process technologies" was started on 1 January 2008. It is part of the COMET support program of the Austrian Research Promotion Agency (FFG) with a project duration of seven years. The focus of activity will be on new and modified methods of pulp making and the use of hemicelluloses in upscale fields such as pharmaceutical, food and cosmetics.

Management Report

Another long-term cooperation was initiated with the Christian Doppler Laboratory for Surface Chemical and Physical Fundamentals of Paper Strength at Graz Technical University. Lenzing is particularly interested in finding out how hemicelluloses are bonded to cellulose surfaces and how pulp quality is affected by the nature of the bond.

Research activity in business year 2009 will also focus on optimizing the pulping process and on developing fiber applications in Business Unit Textile Fibers. The emphasis in Business Unit Nonwoven Fibers will be on developing products for new applications.

The innovation activity of Business Unit Textile Fibers was recognized in November 2008 with a Best Innovator Award by A.T. Kearney. The independent jury awarded winners who set standards in their respective category. Lenzing received the first prize in the category Supporting Factors, making it a member of Europe's group of top innovative companies.

Segment Plastics focused on research in Business Unit Performance Products and on developing high-diffusion roof underlinings and multi-layered laminates. Other focal points were: improved yarns for artificial turf, automotive laminates, technology for surface modification, multifilament production, improved PTFE cable films and weaving yarns for architectural applications. Activity in 2009 will center on bio-degradable materials.

Business Unit Filaments centered its research on high-quality precursor for carbon fiber. Further activities covered new Dolan® fiber types and innovative dental care products. Increased utilization of recyclables to cut raw material cost will be added to these activities in 2009.

Lenzing's innovation activity was recognized in November 2008 with a Best Innovator Award by A.T. Kearney. The textile innovation team received the first prize in the category Supporting Factors, making the company a member of Europe's group of top innovative companies.

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.

Ecological issues have become part of the daily agenda of the textile industry and the nonwovens sector which processes cellulose fibers for hygiene and cosmetics. Lenzing's customers are getting more and more interested in the origin and the sustainability of their raw materials and they concern themselves with respective customer demands and the sustainability of their products.

Lenzing and its fibers made from the renewable raw material wood play a special role in this development: The company's botanic fibers have a combination of interesting properties which are closely related to their plant origin. Conservation of land and water resources and the fact that the renewable raw material absorbs carbon dioxide and releases oxygen until harvested are essential elements of Lenzing's sustainable management. These principles are much appreciated by the company's customers who increasingly make them part of their business philosophy.

All sites of the Group make potential environmental impact part of their decision making. Ecological management is about conscientious resource management, maintenance of high environmental standards for ecologically sound and energy-efficient production, utilization of the renewable raw material wood, innovative technology and high investment in environmental protection. Farsighted environmental policy recognizes ecological trends early on and develops appropriate strategies.

Another leading principle of the Group's corporate philosophy concerns social responsibility and a healthy and humane working world. For Lenzing people are the basis of the company's success. It acts accordingly and offers its employees great potential for personal and professional development as well as interesting opportunities in a just and safe working world full of exciting challenges.

Sustainability Brochure 2008 Full information on the issue of sustainability, current ecological topics, general aspects of our production processes and environmental key figures are provided by our brochure "Focus Sustainability". The brochure was presented at the Dornbirn Man-made Fibers Congress in September 2008. The latest edition can be downloaded or ordered as hard copy at www.lenzing.com.

Lenzing Fibers – a Part of Nature

Water is a precious resource. Lenzing fibers are based on cellulose – the trees used to make them require no irrigation, no fertilizer, no pesticides.

Biodegradable

Lenzing Nonwovens products for cosmetics, hygiene and medicine

Lenzing cellulose fibers are fully bio-degradable. As opposed to fossil-based raw materials, they easily decompose in soil or water treatment plants and, reconverted to water and carbon dioxide, are available again to plants for another cycle of photosynthesis.

Lenzing fibers are not only friendly to the environment, they are also gentle with sensitive skin: Its smooth fiber surface makes Tencel® the fiber of choice for demanding cosmetic tissues.

Management Report

Certification in the Lenzing Group

	ISO 9001	ISO 14001	OHSAS 18001
Lenzing	✔	✔	✔
Heiligenkreuz	✔	✔	✔
Grimsby	✔	✔	✔
Mobile	✔	2010	2010
Purwakarta	✔	✔	✔
Nanjing	✔	Projected	Projected

Sustainability confirmed

The 2008 ranking of the independent ThinkTank Center for Corporate Citizenship Austria (CCC-A) puts the Lenzing Group in rank eight, again placing the company among Austria's top ten sustainable companies. In its category the company even gained rank two. CCC-A biannually ranks Austria's biggest hundred companies according to their performance in corporate social responsibility and sustainability.

Environmental protection

In the reporting year a redesigned fiber production line started operation at the Lenzing site, providing significant capacity increase. Corporate center environmental protection was again challenged to accommodate further production increase in pulp and fiber production and managed to adapt environmental protection facilities to the dynamic expansion of the site.

The extension of the site's 2007 anaerobic sulfate removal facility and its sludge dewatering unit were completed. To optimize overall waste water control, individual process flows were analyzed in a laboratory purification plant.

Waste air purification systems were optimized, resulting in increased performance. Monitoring data collected by the state of Upper Austria at the recording station at Lenzing show that the company in 2008 complied with the stringent immission threshold levels.

To further reduce the emission of odors from waste treatment by Reststoffverwertung Lenzing GmbH, partner company AVE GmbH constructed facilities for closed processing of sludge as well as an exhaust system to clean the waste storage facilities.

In compliance with the new European regulation on chemicals (REACH) Lenzing AG submitted some thirty substances for preregistration at the European chemical agency (ECHA) on time. This is an important contribution to securing future supply within the legal framework. Lenzing AG will continue to actively participate in the REACH process.

The activities of Prüfstelle Umweltanalytik Lenzing (UAL), Lenzing's environmental test laboratory, further consolidated its position. The re-accreditation audit was concluded with very good results. The fulfillment 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.

The Heiligenkreuz site, Austria

Fiber production site Heiligenkreuz installed a second equalizing tank for process waste water for equalization and anaerobic treatment, as well as a second gas scrubber for waste air purification from fiber production to ensure minimal emission despite increased production.

The Purwakarta site, Indonesia

The Purwakarta site of the Indonesian subsidiary PT. South Pacific Viscose carried out comprehensive planning for enhanced environmental protection in waste air and waste water for a new fourth production line. This site as well managed by a package of measures to ensure state-of-the-art emission values, despite massively increased fiber production.

Management Report

Human Resources

Sustainable company success is essentially achieved by the performance of its staff and its teams. Lenzing therefore continually develops and trains its employees and promotes good employee attitude. The Lenzing Principles, which were introduced in 2007, form the basis of this policy. Working atmosphere promotes performance based on mutual respect for the diverse cultural backgrounds of our staff in a spirit of constructive cooperation and fosters a shared understanding of our corporate goals and the will to achieve them.

The adequate assignment of employees is as important as regular feedback on their work performance. This basic understanding essentially facilitates the success of the Group.

In the reporting year, a new performance management process was launched with the introduction of a new tool to help plan employees' development needs. A 360° appraisal system involving downward, upward and peer level reviews was introduced for the management board and senior managers. Due to its major success the program will be extended to the next management level in 2009 and will then be made available for application in all group units.

At the reporting date, 31 December 2008, the Lenzing Group employed a staff of 5,945 (2007: 5,918*).

The Group's biggest site, Lenzing, with its companies Lenzing AG, Lenzing Technik, Lenzing Plastics, Leno and Bildungszentrum Lenzing BZL (Lenzing training center) employed a total staff of 2,865 (2007: 2,930), of which 143 (2007: 145) were trainees. The Lenzing Group is very committed to training skilled labor. Therefore an additional 21 trainees received training at Heiligenkreuz (Austria), Affolterbach and Munderkingen (Germany) and Grimsby (Great Britain).

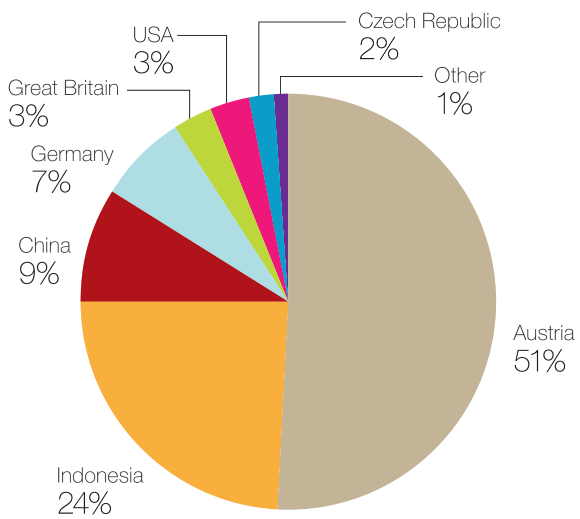
The Group provides its employees with a framework that enables them to meet professional and personal challenges, centering on the promotion of self-responsible action and personal development. The focus in 2008 was on providing employees with the opportunity to benefit from short-term and long-term international assignments.

The Lenzing training center provided a broad range of activities for the development of employees' skills and abilities.

*) Excluding staff of discontinued operations

Staff by country

Lenzing Group Headcount 31/12/2008: 5,945 *



*) Including trainees, excluding leased labor

Management Report

Safety

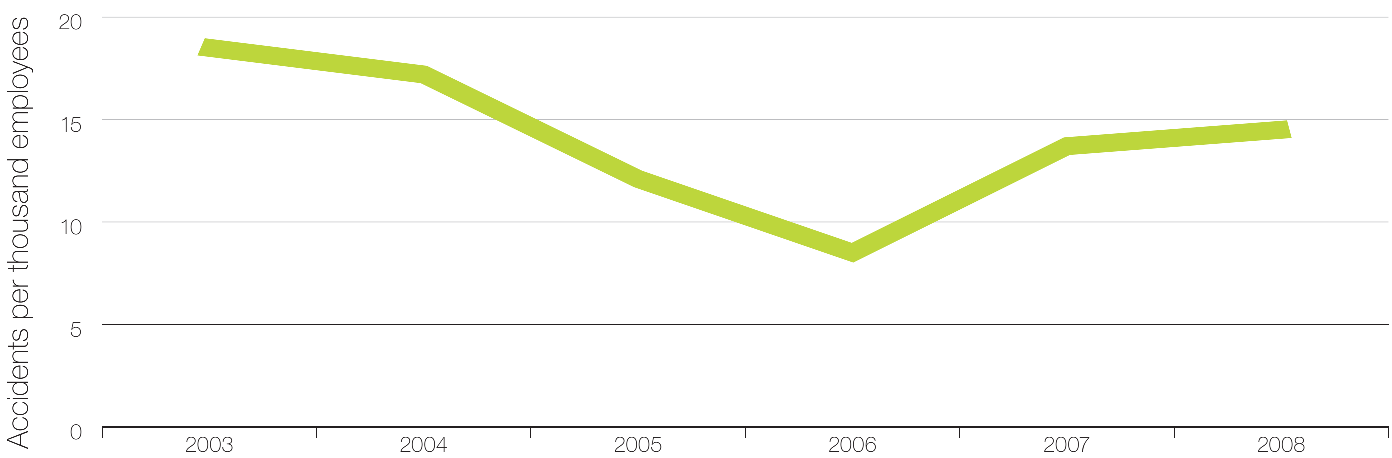
The number of accidents rose slightly over those of 2007. Intensive investment activity in addition to production work in part carried out by leased labor increased the risk of injury and form the background of this development.

At some of the newly integrated sites of Business Unit Filaments accident figures declined significantly, with potential for improvement at others.

The Group's sites design their individual priority programs according to their current status and requirements. The introduction of safety management according to standard OHSAS 18001 was continually implemented. Some areas already certified underwent renewed auditing and were re-certified. Major progress was made at SPV in Indonesia and at Lenzing Nanjing (China).

We set standards The 2009 Health and Safety motto for the Lenzing site: "WELL and SAFE with Safety Standards". The goal of this campaign is to ensure that current safety standards will be maintained and that new standards will be implemented.

Development of injury rates



Health

The reorganization of occupational medical care in a modern health center was completed in 2008. Facilities were redesigned and brought up to the latest standards of preventive medicine.

The health project for trainees (started in 2007) was successfully implemented. As part of a newly created health pass provided to every trainee, health topics were incorporated into the curriculum. A practice handbook for management providing guidelines on how to deal with psychosocial crises was used in dedicated workshops and has become a set module of management training.

Seminars and courses on how to cope with stress were received with particular interest.

Increased public concern over the protection of non-smokers' health revived interest in quit-smoking seminars. The restaurant at the Lenzing site was declared a non-smoking area at the end of 2008.

Management Report

Corporate Communications

Internal and external communication are indispensable for a global company such as the Lenzing Group with its high level of local responsibility at its numerous sites.

Two essential aspects of Lenzing's corporate culture are therefore: external continuous and transparent communication with all target groups, interest groups, all stakeholders and internal open flow of information that includes all employees.

Corporate center Corporate Communications ensures efficient and competent public and corporate relations. It manages the communication flows targeting investors and the general public.

Investor Relations

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

The share capital of Lenzing AG is EUR 26,717,250.00. It is divided into 3,675,000 individual and equal share certificates. B & C Beteiligungsverwaltungs GmbH, Vienna, is the majority shareholder. It considers itself a key shareholder with a long-term perspective. The B & C Group on 15 October 2008 announced that its share of voting rights in Lenzing AG exceeds the threshold of 90%.

B & C Privatstiftung on 30 December 2008, through its full subsidiary B & C Beteiligungsverwaltungs GmbH, acquired all profit participation rights in its full subsidiary B & C Holding from UniCredit Bank Austria GmbH, thereby finally excluding any sale to third parties, as well as the threat of any hostile takeover.

2008 was characterized by a negative and very volatile stock market situation. As a consequence of the financial crisis that had started in the USA, banks came under strong pressure. Some were nationalized or had to ask for government help. This led to an even more restrictive credit policy and outflow of funds, as well as to significant redeployment of capital which affected all industries.

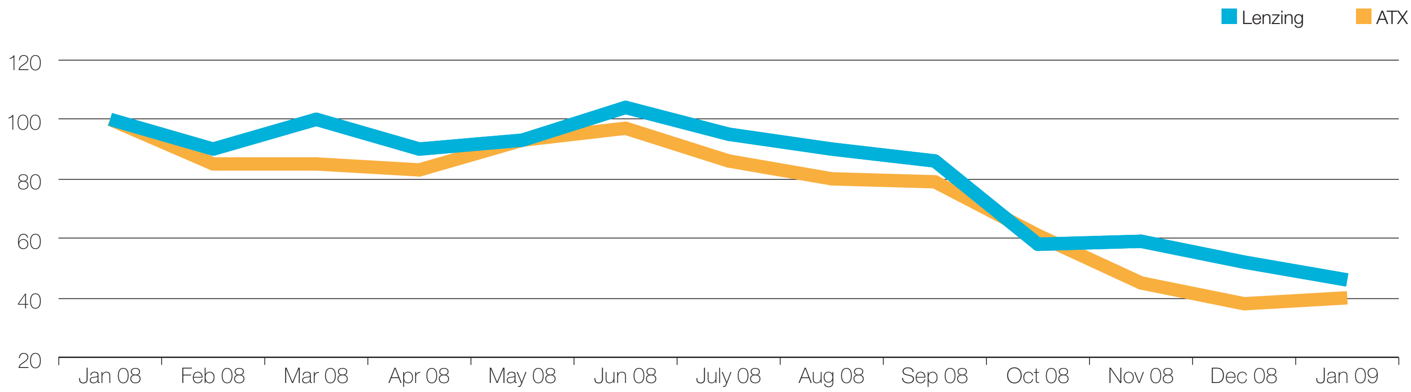
Fear of recession and negative company reports created a climate of anxiety at the world's major stock markets, which led to a strong decline in share prices, a trend Lenzing did not manage to escape. The share price of EUR 364.00 at the beginning of 2008 had fallen to EUR 166.99 by the end of the year, on the whole following the Viennese lead index, the ATX.

The Lenzing share has been listed on the VÖNIX Nachhaltigkeitsindex since 2005. In 2008 the company again succeeded in meeting the stringent standards of this index. VÖNIX (VBV-Österreichischer Nachhaltigkeitsindex) is an Austrian sustainability index of quoted Austrian companies with lead performance in social and ecological issues.

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.

The Lenzing share price

in %



Public Relations

As in previous years, the public and Lenzing's staff were informed promptly and comprehensively on business developments, projects and relevant activities. Press releases, numerous press meetings and talks with journalists provided the general public with information.

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 was provided by the German-language staff magazine The Lenzinger. The bilingual magazine Lenzing Inside keeps international staff briefed on developments and news concerning the company on a semi-annual basis. Lenzing Inside is also distributed to Lenzing's global customers.

TV magazine Lenzing Aktuell was again broadcast by local TV station Bezirks TV in 2008. Ten features presented news, background information and current events from the world of Lenzing.

As part of the Group's strategic planning, Corporate Communications presented a corporate communication concept covering the time up to year 2015. In line with Lenzing's mission statement, Leading Fiber Innovation, key positions and key messages were defined as the basis of corporate communication activity.

Moreover, Lenzing again presented itself at numerous international trade fairs, such as Texworld, ITMA and Expofil, providing the international audience of the industry with the opportunity to acquaint themselves with the Group's products, achievements in sustainability and innovations.

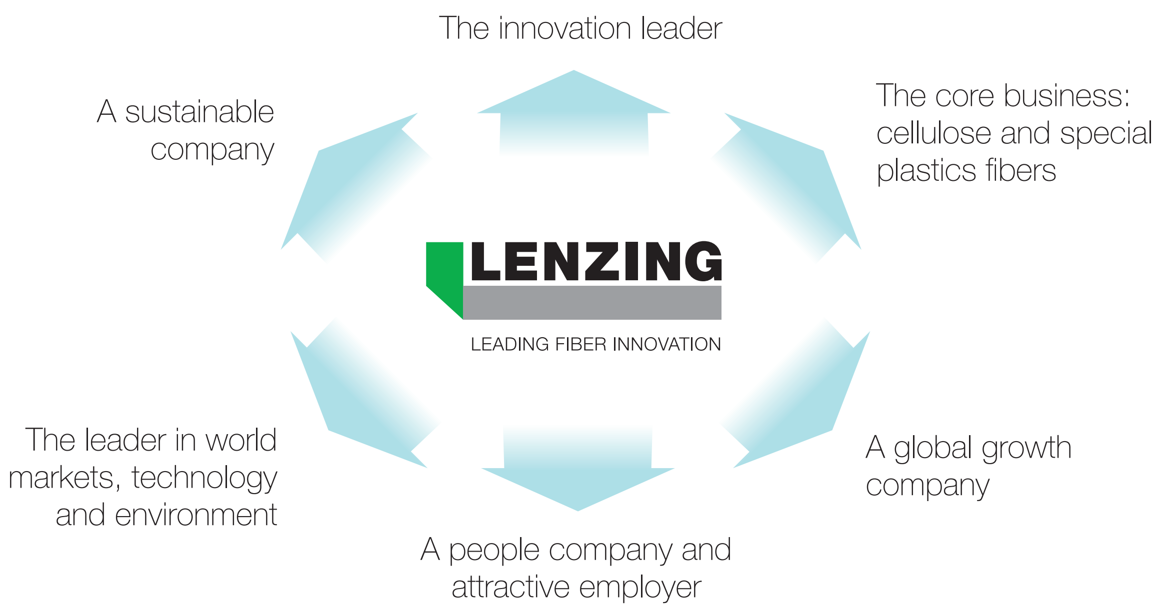
Management Report

The company's new sustainability brochure was presented to the international press at the Dornbirn Man-made Fibers Congress in September 2008.

Lenzing in 2008 again received several awards: In June the economy award by regional newspaper 'Oberösterreichische Nachrichten', the Pegasus in Gold, and in December The Pacemaker 2008 by the newspaper 'Oberösterreichische Rundschau'. The independent ThinkTank Center for Corporate Citizenship biannually ranks Austria's 100 biggest companies by their performance in corporate social responsibility and sustainability. Rank eight again placed Lenzing among Austria's top ten sustainable companies. In its category Lenzing even gained rank two.

Communication

Lenzing key positions



Outlook Lenzing Group

The current recession is deepening; fiber oversupply and continuing weak private demand in the Western industrialized nations will prevent a sustainable recovery of the global fiber market for the time being. After the strong decline in quantity demand in the fourth quarter of 2008, which is likely to continue into the first half of 2009, we expect first signs of stabilizing demand for the second half of the year. Prices currently are at absolutely unsatisfactory levels and margins are depressed.

The current economic environment for Lenzing Plastics is equally unsatisfactory, although the lower raw material prices will have a stimulating effect. Comprehensive public investment in infrastructure is hopefully expected to have a positive impact on the construction industry from which Lenzing Plastics would eventually benefit. Based on the current level of order bookings the development of Lenzing Technik is expected to be stable.

Even in this difficult situation the Lenzing Group will continue to be a solid and reliable supplier. The company aims to further improve its market position by maximizing capacity utilization. Investment into expansion will continue with the extension of the Indonesian site PT. South Pacific Viscose and the further optimization of the site at Lenzing. Research and development will be carried out at its high level of activity and will even be expanded wherever appropriate.

Lenzing Plastics will flexibly adjust production capacity to market demand, while simultaneously increasing its activities in marketing, distribution and sales.

All sites will realize further savings and cost efficiency measures in production, distribution and administration.

A significant decline in the Group's business results for 2009 is to be expected, however, despite these comprehensive countermeasures. The company's excellent market position, its technology lead and its product portfolio, as well as good liquidity and a solid balance sheet structure are the basis for realizing market opportunities in the current situation and even more so in the coming economic upturn.

Management Report

Events after the Balance Sheet Date

Lenzing AG on 29 January 2009 and in reference to section 91 of the Austrian Stock Exchange Act was informed by B & C Beteiligungsverwaltungs GmbH that due to internal restructuring B & C Beteiligungsverwaltungs GmbH has become the top-level company of B & C Privatstiftung, holding all direct and indirect investments of the B & C Group.

Company		Number of shares/ voting rights in Lenzing AG	Share in Lenzing AG share capital
B & C Lenzing Holding GmbH	Full and direct subsidiary of B & C Beteiligungsverwaltungs GmbH	1,871,824	ca. 50.93%
B & C Holding GmbH	Full and direct subsidiary of B & C Beteiligungsverwaltungs GmbH	1,421,027	ca. 38.67%
B & C Beteiligungsmanagement GmbH	Full and direct subsidiary of B & C Holding GmbH	20,000	ca. 0.54%

All in all, B & C Beteiligungsverwaltungs GmbH indirectly holds 3,312,851 individual shares in Lenzing AG and as many voting rights. This corresponds to approximately 90.15% of the share capital of Lenzing AG.

Lenzing, 25 March 2009

The Management Board

Peter Untersperger

Christian Reisinger

Friedrich Weninger

Distribution of Profit

	EUR
The business year of Lenzing AG ends with a net income of	58,068,128.77
Add: profit carried forward from 2007 of	20,519.85
Add: reversal of untaxed reserves of	282,226.34
Deduct: allocation of profit reserves of	-6,900,000.00
Total accumulated profit	**51,470,874.96**
The management board proposes a profit distribution as follows:	
Distribution of a dividend of	51,450,000.00
corresponding to EUR 14.00 per share on the common stock entitled to dividend of EUR 26,717,250.00.	
To be carried forward onto new account	**20,874.96**

Pending the decision of the general shareholders' meeting, a dividend of EUR 14.00 per share will be paid at

UniCredit Bank Austria AG
Vordere Zollamtsstraße 13
1030 Vienna, Austria

from 30 April 2009 onwards upon deduction of a capital gains tax of 25% and stamping of the share certificate.

The shares will be traded ex-dividend at the Vienna Stock Exchange as of 28 April 2009.

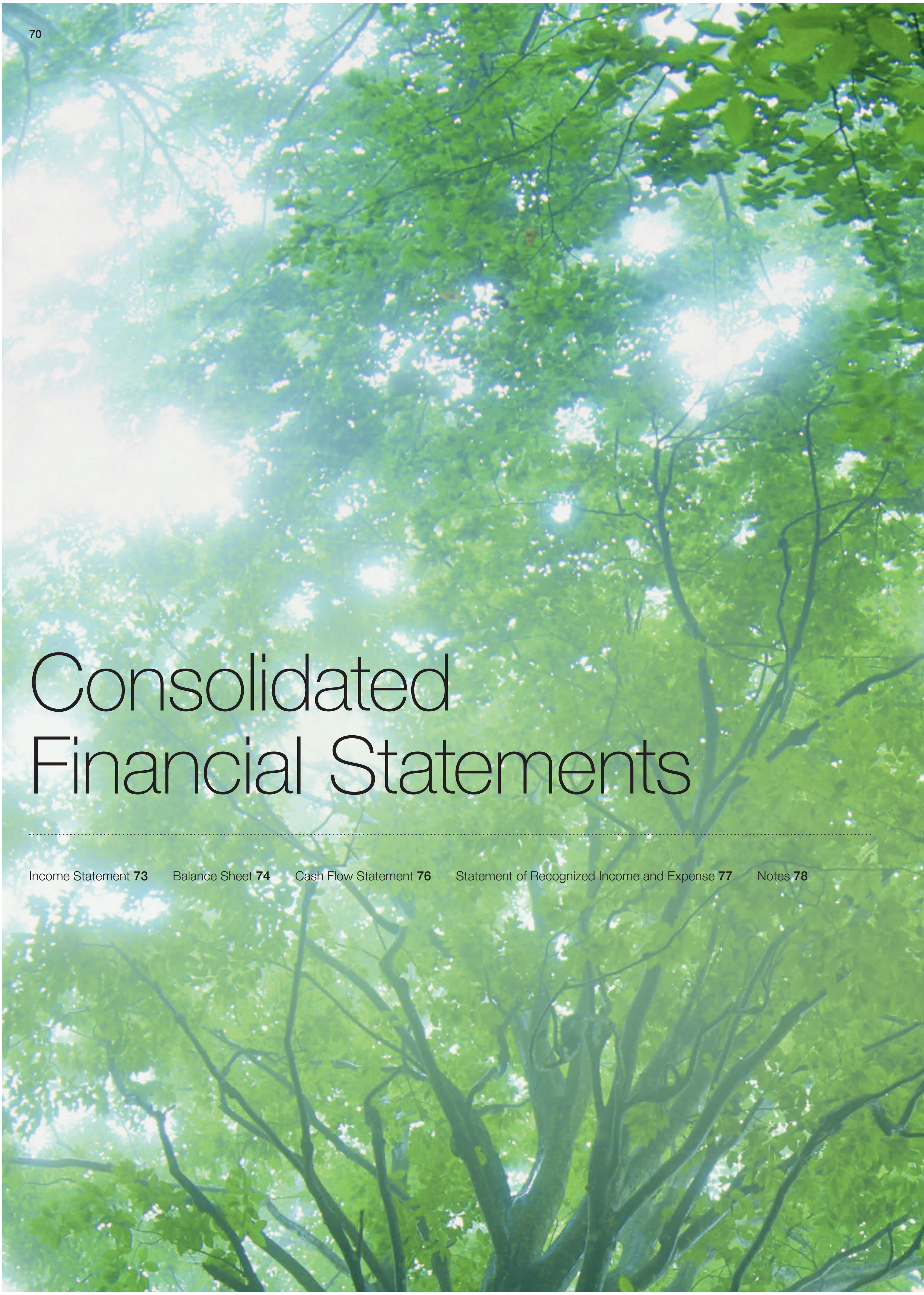
Lenzing, 25 March 2009

The Management Board

Peter Untersperger

Christian Reisinger

Friedrich Weninger



Consolidated Financial Statements

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Income Statement

		2008	2007
Continuing operations	Note	EUR '000	EUR '000
Sales	(7)	1,329,080	1,260,510
Changes in inventories of finished goods and work in progress	(8)	30,135	13,668
Work performed by the Group and capitalized	(9)	37,175	27,442
Other operating income	(10)	23,458	14,590
Cost of material and purchased services		(822,996)	(709,755)
Personnel expenses	(11)	(244,130)	(229,259)
Amortization of intangible assets and depreciation of property, plant and equipment	(12)	(74,208)	(70,454)
Other operating expenses	(13)	(148,200)	(144,418)
Income from operations (EBIT)	**(14)**	**130,314**	**162,324**
Income from investments in associates	(15)	2,574	1,301
Other investment income	(16)	6,373	1,997
Finance costs		(24,536)	(14,607)
Income before taxes (EBT)		**114,725**	**151,015**
Income taxes	(17)	(36,573)	(32,765)
Profit for the year after taxes from continuing operations		**78,152**	**118,250**
Discontinued operations			
Result of the year from discontinued operations	(5)	538	(627)
Net income		**78,690**	**117,623**
Attributable to shareholders of Lenzing AG		77,726	109,621
Attributable to minority shareholders	(29)	964	8,002
		EUR	EUR
Earnings per share	(18)		
From continuing and discontinued operations		21.15	29.83
From continuing operations		21.00	30.00

Consolidated Financial Statements

Balance Sheet

Assets		31/12/2008	31/12/2007
	Note	EUR '000	EUR '000
Intangible assets	(19)	93,107	85,897
Property, plant and equipment	(20)	780,812	698,769
Investments in associates	(21)	17,094	12,552
Other financial assets	(22)	13,072	12,380
Deferred taxes	(33)	1,924	864
Other non-current assets	(23)	2,498	2,700
Non-current assets		**908,507**	**813,162**
Inventories	(24)	209,936	163,967
Trade receivables	(25)	134,896	135,797
Current income taxes		9,938	2,966
Other receivables and assets	(27)	46,776	46,618
Investments	(28)	0	8,164
Cash and cash equivalents	(37)	105,795	110,936
		507,341	**468,448**
Assets of discontinued operations	(5)	0	26,974
Current assets		**507,341**	**495,422**
		1,415,848	**1,308,584**

Equity and Liabilities

	Note	31/12/2008 EUR '000	31/12/2007 EUR '000
Common stock		26,717	26,717
Capital reserves		63,600	63,600
Currency translation reserves		(15,602)	(20,644)
Retained earnings and other reserves		482,397	474,676
Share of shareholders of Lenzing AG		**557,112**	**544,349**
Minority interests		22,615	17,882
Equity	**(29)**	**579,727**	**562,231**
Government grants	**(30)**	**31,709**	**30,540**
Bank loans	(31)	303,399	275,316
Other loans	(31)	32,473	22,228
Trade payables		5,988	579
Deferred taxes	(33)	28,216	25,918
Provisions	(34)	94,731	90,143
Other liabilities	(35)	982	2,387
Non-current liabilities		**465,789**	**416,571**
Bank loans and overdrafts	(31)	126,728	23,561
Other loans	(31)	8,627	6,448
Trade payables		60,202	100,377
Provisions for current income tax		11,238	17,341
Other provisions	(34)	83,054	82,265
Other liabilities	(35)	48,774	48,993
		338,623	**278,985**
Liabilities of discontinued operations	(5)	0	20,257
Current liabilities		**338,623**	**299,242**
		1,415,848	**1,308,584**

Consolidated Financial Statements

Cash Flow Statement

	Note	2008 EUR '000	2007 EUR '000
Gross cash flow	(37)	157,813	203,638
Change in working capital	(37)	(108,574)	22,541
Net cash generated by discontinued operations	(5)	1,116	(2,382)
Operating cash flow		**50,355**	**223,797**
- Acquisition of non-current assets	(37)	(160,871)	(265,748)
+ Proceeds from the disposal/repayment of non-current assets	(37)	3,902	6,628
+ Proceeds from the sale of securities held as current assets	(37)	8,072	0
Net cash generated by/used in discontinued operations	(5)	2,290	(1,047)
Net cash used in investing activities		**(146,607)**	**(260,167)**
+ Payments of other shareholders	(37)	4,165	1,088
- Dividends paid to shareholders	(29)	(53,020)	(38,541)
+ Receipts from financing activities	(37)	166,577	191,694
- Repayment of loans		(24,675)	(96,275)
Net cash used in/generated by discontinued operations	(5)	(1,436)	3,929
Net cash generated by financing activities		**91,611**	**61,895**
Change in cash and cash equivalents		**(4,641)**	**25,525**
Cash and cash equivalents at beginning of the year		111,436	88,807
Currency translation adjustment relating to cash and cash equivalents		(1,000)	(2,896)
Cash and cash equivalents at the end of the year	**(37)**	**105,795**	**111,436**

Statement of Recognized Income and Expense

	Note	2008 EUR '000	2007 EUR '000
Net income per income statement		**78,690**	**117,623**
Income and expense recognized directly in equity:			
Gain/(loss) on available-for-sale investments			
taken directly to equity		(614)	(309)
transferred to profit or loss on sale		(161)	(240)
Gain/(loss) on cash flow hedges			
taken directly to equity		(9,591)	5,198
transferred to profit or loss for the period		(5,080)	(2,866)
Exchange differences on translation of financial statements presented in foreign currencies		6,606	(18,900)
Actuarial gain/(loss) on defined benefit plans	(34)	(7,064)	(2,938)
Gain/(loss) from associates taken directly to equity		(735)	0
Tax on items taken directly to equity		4,529	299
Net income/(loss) recognized directly in equity		**(12,110)**	**(19,756)**
Total recognized income and expense for the period		**66,580**	**97,867**
Attributable to			
Shareholders of Lenzing AG		64,103	90,817
Minority shareholders		2,477	7,050
		66,580	**97,867**

Consolidated Financial Statements

Notes

Summary of accounting policies and other explanatory notes to the consolidated financial statements as at 31 December 2008

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 Beteiligungsverwaltungs 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 and is therefore presented as discontinued operation. The global sales network includes trading companies in Shanghai and Hong Kong and sales offices in New York and Coimbatore. The sales office in Beijing was closed in late 2008.

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 and mandatory at the time of preparation.

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.

Change of presentation

From this year onwards, losses from unrealized financial derivatives are presented as other liabilities as opposed to the presentation within other provisions up to 2007. Comparative 2007 figures were adjusted and resulted in a reclassification of EUR 1,108 thousand from other provisions to other liabilities. This reclassification did not affect the results, the financial position and the major key data of the Lenzing Group.

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.

Estimates and assumptions need to be made particularly with respect to the measurement of construction contracts and other provisions. Estimates are performed by the Group's own engineers. The underlying assumptions related to the estimates are reviewed and adjusted on an ongoing basis.

The management board believes that deviations from these estimates will not have a material influence on future consolidated financial statements and the Group will not be exposed to significant adverse concentrations of risk in the near future.

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 2008. Note 42 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.

The number of consolidated entities was as follows:

	2008		2007	
	Full consolidation	Equity consolidation	Full consolidation	Equity consolidation
As at 1/1	41	4	28	4
Consolidated for the first time in reporting period	0	1	15	0
Merged in reporting period	0	0	(1)	0
Deconsolidated in reporting period	0	0	(1)	0
As at 31/12	41	5	41	4

In April 2008 the Lenzing Group acquired another 10% of EQUI-Fibres Beteiligungsgesellschaft mbH (see note 4). Segment Paper was divested to an independent company (Lenzing Papier GmbH) and 60% of the shares in the new company were sold at the beginning of March 2008 (see note 5).

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 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”.

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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 2008.

On October 13, 2008 the International Accounting Standards Board (IASB) issued amendments to IAS 39 **Financial Instruments: Recognition and Measurement** and IFRS 7 **Financial Instruments: Disclosures** for reclassifications of financial assets. Entities are required to apply the amendments from 1 July 2008, whereas in the period from 1 July 2008 to 31 October 2008 reclassifications in line with the amendments to IAS 39 could be applied retrospectively. From 1 November 2008 onwards the amendments to IAS 39 can only be applied prospectively.

The adoption of these amended standards does not have any impact on the measurement and presentation of the balance sheet items of the Lenzing Group.

The following revised standards, new interpretations and amended standards had already been issued during 2008 and up to the time of preparation of these consolidated financial statements. Their application to business years beginning on or before 1 January 2008 is not mandatory, and the Group has not applied them early on a voluntary basis:

- Revisions to IFRS 3 **Business Combinations** (effective for business combinations for which the acquisition date is on or after the beginning of reporting periods beginning on or after 1 July 2009) and IAS 27 **Consolidated and Separate Financial Statements** (effective for business years beginning on or after 1 July 2009) concerning the accounting of various types of acquisitions and the measurement of non-controlling (former minority) interests,

- Amendment of IFRS 2 **Share-based Payment** (effective for business years beginning on or after 1 January 2009),

- Amendments to IAS 32 **Financial Instruments: Presentation** and IAS 1 **Presentation of Financial Statements** (effective for business years beginning on or after 1 January 2009),

- Amendments to IFRS 1 **First-time Adoption of International Financial Reporting Standards** and IAS 27 **Consolidated and Separate Financial Statements** relating to the measurement of initial cost of an investment in a subsidiary, a jointly controlled entity or an associate. The revised version of IFRS 1 was restructured. It will supersede the present IFRS 1 and be effective for first-time adopters who will prepare financial statements complying with IFRSs for the first time on or after 1 January 2009.

- Amendment to IAS 39 **Financial Instruments: Recognition and Measurement** for eligible hedged items (effective for business years beginning on or after 1 July 2009),

- Amendments to a number of IFRSs as a result of the first annual improvements project 2007 (effective for business years beginning on or after 1 January 2009),

- IFRIC 15 **Agreements for the Construction of Real Estate** (effective for business years beginning on or after 1 January 2009),

- IFRIC 16 **Hedges of a Net Investment in a Foreign Operation** (effective for business years beginning on or after 1 October 2008) and

- IFRIC 17 **Distributions of Non-cash Assets to Owners** (effective for business years beginning on or after 1 July 2009).

IFRS 3 and some of the amendments to IAS 27 have to be applied prospectively and will therefore not affect prior periods in the 2010 financial statements. The adoption of the other 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 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.

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 foreign exchange rate of the balance sheet date (closing rate).

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.

The main rates applied in translating currencies to euro were the following:

Unit	Currency		Closing rate	
1	EUR/USD	US Dollar	31/12/2008	1.3955
1	EUR/USD	US Dollar	31/12/2007	1.4720
1	EUR/GBP	GB Pound	31/12/2008	0.9567
1	EUR/GBP	GB Pound	31/12/2007	0.7345
1	EUR/CZK	CZ Koruna	31/12/2008	26.6075
1	EUR/CZK	CZ Koruna	31/12/2007	26.6050
1	EUR/CNY	Renminbi Yuan	31/12/2008	9.5225
1	EUR/CNY	Renminbi Yuan	31/12/2007	10.7460
1	EUR/HKD	Hong Kong Dollar	31/12/2008	10.8164
1	EUR/HKD	Hong Kong Dollar	31/12/2007	11.4720

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	3 to 5

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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 non-temporary impairment is 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 non-temporary impairment is 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

Investments in subsidiaries which are not consolidated and other investments for which no quoted price on an active market exists are measured at cost. In the case of a non-temporary impairment those assets are carried at an applicable lower realizable value.

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

Securities held as fixed assets are classified as available-for-sale financial assets. There is no intention to sell them 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.

The 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 (benchmark MSCI EMU-NR).

In the balance sheet and in the development of fixed assets, securities and other investments are presented together under the heading "Securities".

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 five companies. These are EQUI-Fibres Beteiligungsgesellschaft mbH (EQUI) (45%) and its subsidiaries, WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H. (WWE) (25%), LKF Tekstil Boya Sanayi Ve Ticaret A.S. (LKF) (33.34%), RVL Reststoffverwertung Lenzing GmbH (RVL) (50%) and Lenzing Papier GmbH (LPP) (40%). 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" these gains or losses are presented either as write-ups or as depreciation respectively. According to IFRS 3, acquired goodwill is not written down by default but only 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. A deferred tax asset is fully recognized if it is probable that the asset can be realized. This applies to assets set up for tax loss carry-forwards in particular, but also to assets set up for other temporary differences. Otherwise a valuation allowance is accounted for.

Deferred taxes are recognized on the elimination of intra-group profits from inventories and fixed assets and on the results from the elimination of intercompany balances.

Deferred tax assets and deferred tax liabilities are offset in the group if there is a right to set off current tax assets against current tax liabilities and if the current tax relates to taxable entities within the same tax group.

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 (percentage of completion method). 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.

The amounts due from customers under construction contracts are presented under the heading "Trade receivables". The contract revenues recognized as revenue in the period are presented within "Sales".

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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

Receivables and other current assets are measured at amortized cost with the following exceptions: Derivative financial assets are measured at fair value; foreign currency items are translated at closing rates. Amortized cost of receivables and other current assets can be taken as a reasonable estimate of their fair values as the maturity of those assets is less than one year in most of the cases. Long-term receivables at low or no interest are discounted applying the effective interest method. Bad debt provisions are made for those items that are considered uncollectible or only partially collectible.

Emission allowances

Emission allowances 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 deliver allowances representing the Group's actual emissions up to that date. The provision is measured at the fair value of the allowances capitalized, provided the allowances needed to settle the obligation are covered by the allowances held at the respective reporting date. To the extent that the allowances needed to settle the obligation exceed the allowances held, the provision for that part of allowances is valued at the additional fair value of allowances needed to settle the obligation. The government grant for emission allowances used up to that date is recognized as income.

Investments held as current assets

Investments held as current assets are classified as available-for-sale financial assets and 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/derecognized on the settlement date.

Government grants

Investment 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 allowances are detailed in section "emission allowances".

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 termination 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.

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 gross salary to an external pension fund.

Under defined contribution plans the Lenzing Group has no obligations beyond payment of the agreed contributions to the plan. A provision is not recognized in the balance sheet.

The obligations arising from defined benefit pension plans and severance payment obligations have to be treated as post-employment benefits according to IAS 19 and are measured using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. The benefits expected to be paid are spread over the whole period of service. Future salary and pension increases are taken into account. In accordance with IAS 19.93A actuarial gains and losses are recognized in full in the period in which they occur. They are recognized directly in equity in accordance with IAS 19 paragraphs 93B to 93D. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost and as reduced by the fair value of plan assets.

Interest cost accruing on pension and similar plans and return on plan assets are included in the income statement under heading “Personnel expenses”.

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 funds to finance these commitments.

Anniversary bonuses are regarded as other long-term employee benefits according to IAS 19. They are also measured according to the projected unit credit method using actuarial valuations. The benefits expected to be paid are spread over the whole period of service and future salary and pension increases are taken into account. Actuarial gains and losses and past service costs are recognized immediately in profit or loss.

Interest costs accruing on obligations to pay anniversary bonuses are included in the income statement under heading “Personnel expenses”.

Payables and other liabilities

Payables and other liabilities are measured at amortized cost with the following exceptions: Derivative financial assets are measured at fair value; foreign currency items are translated at closing rates.

Long-term liabilities at interest rates that deviate from market rates are discounted applying the effective interest method. The discount rate used is the rate for financing at comparable terms that could have been negotiated at the time when the liability arose.

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Amortized cost of the other liabilities can be taken as a reasonable estimate of their fair values as the maturity of those liabilities is less than one year in most of the cases.

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.

Earnings per share

In accordance with IAS 33 earnings per share are computed 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.

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 and aluminum 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 consumption of commodities in the respective foreign currency.

The Group applies the rules of hedge accounting as set out in IAS 39. Hedge accounting can only be applied if the hedging relationship is continuously documented and if the effectiveness of the hedge which has to lie within in the range of 80% to 125% is reliably measured.

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 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. The ineffective portion of the changes in fair value of the cash-flow hedge and the measurement of derivatives for which a hedging relationship cannot be established is immediately recognized in profit or loss.

Derivatives embedded in financial instruments or host contracts are treated as standalone derivatives if the economic characteristics and risks of the embedded derivative are not closely related to the host contract and the combined instrument is not measured at fair value through profit or loss.

Note 4. Changes in ownership interests

On April 9, 2008 the Lenzing Group acquired another 10% of EQUI-Fibres Beteiligungsgesellschaft mbH ("EQUI") and now holds a 45% share. The transaction was recognized by applying the purchase method. Positive effects resulting from the acquisition were recognized as part of the income from investment in associates.

If the transaction would have taken place effective 1 January 2008 this would have no impact on the group result.

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Note 5. Sale of operations

Lenzing AG divested segment Paper to an independent company (Lenzing Papier GmbH) and, at the beginning of March 2008, sold 60% of the shares in the new company and with it effective management control of Lenzing's paper business.

The combined results of discontinued operations are set out in the following table:

Income statement	1-2/2008	2007
	EUR '000	EUR '000
Sales	12,564	62,011
Other operating income	29	9
Changes in inventories of finished goods and work in progress	(1,260)	2,538
Cash effective expenses	(11,184)	(64,040)
Amortization of intangible assets and depreciation of property, plant and equipment	(195)	(1,200)
Income from operations (EBIT)	**(46)**	**(682)**
Finance costs	(98)	(159)
Income before taxes	**(144)**	**(841)**
Attributable income taxes	(19)	214
Result of discontinued operations	**(163)**	**(627)**
Gain on disposal of operation	1,021	0
Attributable income tax expense	(320)	0
Profit for the year from discontinued operations	**538**	**(627)**

The major classes of assets and liabilities attributable to discontinued operations at the balance sheet date are as follows:

Carrying amount of net assets sold	29/02/2008	31/12/2007
	EUR '000	EUR '000
Intangible assets	19	21
Property, plant and equipment	9,453	9,645
Other financial assets	22	24
Non-current assets	**9,494**	**9,690**
Inventories	9,915	10,350
Receivables and other assets	9,193	6,434
Cash at banks	500	500
Current assets	**19,608**	**17,284**
Assets of discontinued operations	**29,102**	**26,974**
Hedging Reserve	**(110)**	**19**
Government Grants	**61**	**62**
Deferred tax	208	225
Long-term provisions	2,279	2,919
Non-current liabilities	**2,487**	**3,144**
Financial liabilites	10,383	11,650
Trade payables short-term	5,319	3,222
Provisions short-term	3,841	1,413
Other short-term payables	840	767
Current liabilities	**20,383**	**17,052**
Liabilities of discontinued operations	**22,821**	**20,276**
Net assets of discontinued operations	**6,281**	**6,698**

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The following cash flows are attributable to discontinued operations:

Cash Flows from discontinued operations	1-2/2008	2007
	EUR '000	EUR '000
Gross cash flow	(253)	667
Change in working capital	1,369	(3,049)
Operating cash flow	**1,116**	**(2,382)**
Net cash generated by/used in investing activities	**2,290**	**(1,047)**
Net cash used in/generated by financing activities	**(1,436)**	**3,929**
Net cash flows	**1,970**	**500**

Note 6. Segment reporting

Primary segment reporting – breakdown by business segment

The Lenzing Group's primary segment reporting format is based on business segments. 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.

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

Plastics:

Segment Plastics produces plastics specialties for processing and finishing and was segmented in 2008 into Business Units Performance Products and Filaments.

Paper:

Segment Paper (= Business Unit Paper) comprises the production of poster paper, envelope paper and recycled paper. This segment was classified and accounted for as a discontinued operation as of 31 December 2007 and the majority interest was sold at the beginning of March (please refer to note 5).

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2008	Fibers	Plastics
	EUR '000	EUR '000
Sales to external customers	1,096,146	180,756
Inter-segment sales	11,795	1,461
Total sales	1,107,941	182,217
Segment result (EBIT)	118,125	7,345
Amortization/depreciation	69,455	5,494
Share in the result of associated companies	2,984	0
Expenditure for property, plant and equipment and intangible assets	131,405	31,748

31/12/2008	Fibers	Plastics
	EUR '000	EUR '000
Segment assets	1,094,282	163,797
Segment liabilities	245,778	31,179
Investments in associated companies	14,310	0

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

31/12/2007	Fibers	Plastics
	EUR '000	EUR '000
Segment assets	975,726	135,475
Segment liabilities	257,899	47,353
Investments in associated companies	11,809	0

[1] 1-2/2008 [2] including attributable result of Lenzing Papier GmbH from March 2008 onwards

Engineering	Other	Consolidation	**Continuing operations**	Discontinued operation [1]
EUR '000	EUR '000	EUR '000	**EUR '000**	EUR '000
51,262	916	0	**1,329,080**	12,564
59,600	1,276	(74,132)	**0**	0
110,862	2,192	(74,132)	**1,329,080**	12,564
10,014	243	(5,413)	**130,314**	(46)
1,326	40	(2,107)	**74,208**	195
0	(410)[2]	0	**2,574**	0
3,726	136	(8,437)	**158,578**	2

Engineering	Other	Consolidation	Discontinued operation	**Total**
EUR '000	EUR '000	EUR '000	EUR '000	**EUR '000**
45,820	416	(37,440)	0	**1,266,875**
31,190	609	(15,025)	0	**293,731**
0	2,784	0	0	**17,094**

Engineering	Other	Consolidation	**Continuing operations**	Discontinued operation
EUR '000	EUR '000	EUR '000	**EUR '000**	EUR '000
68,704	1,057	0	**1,260,510**	62,011
50,327	1,305	(63,440)	**0**	0
119,031	2,362	(63,440)	**1,260,510**	62,011
6,194	465	(1,693)	**162,324**	(682)
979	37	(1,604)	**70,454**	1,200
0	(3)	0	**1,301**	0
4,389	12	(5,373)	**136,726**	1,058

Engineering	Other	Consolidation	Discontinued operation	**Total**
EUR '000	EUR '000	EUR '000	EUR '000	**EUR '000**
58,420	321	(37,343)	26,974	**1,159,573**
36,634	566	(17,708)	20,257	**345,001**
0	743	0	0	**12,552**

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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. The prices for inter-segment deliveries are essentially determined on the same basis as for external customers.

Secondary segment reporting – 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	
	2008	2007	31/12/2008	31/12/2007	2008	2007
Continuing operations	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Austria	162,120	177,539	776,394	743,725	98,785	85,583
EU w/o Austria	419,423	410,467	141,566	124,480	27,855	14,813
Other Europe	95,966	75,856	0	0	0	0
Asia	522,557	497,475	313,586	237,806	29,664	32,427
The Americas	112,149	86,098	35,329	26,588	2,274	3,903
Other	16,865	13,075	0	0	0	0
Subtotal	**1,329,080**	**1,260,510**	**1,266,875**	**1,132,599**	**158,578**	**136,726**
Discontinued operations						
Austria	2,096	9,473	0	26,974	2	1,058
EUR w/o Austria	8,872	44,168	0	0	0	0
Other Europe	1,464	7,141	0	0	0	0
Asia	0	254	0	0	0	0
The Americas	0	0	0	0	0	0
Other	132	975	0	0	0	0
Subtotal	**12,564**	**62,011**	**0**	**26,974**	**2**	**1,058**
Total	**1,341,644**	**1,322,521**	**1,266,875**	**1,159,573**	**158,580**	**137,784**

The products of the Group are marketed globally. The production lines of segment Fibers are located in Austria, in the UK, the USA, China and Indonesia. The main site, Lenzing, has an annual capacity of 245,000 tons and produces standard viscose-fibers as well as specialties. Lyocell production sites include Heiligenkreuz, Austria, with an annual capacity of 50,000 tons and Grimsby, UK, and Mobile, USA, with annual capacities of 40,000 tons each. The group has two viscose fiber production plants in Asia. The plant located in Purwarkarta, Indonesia, has an annual capacity of 155,000 tons, the plant in Nanjing, China, has an annual production capacity of 60,000 tons. The production facilities of the other segments are located in the Lenzing area, Germany, the Czech Republic and the USA.

Note 7. Sales

The sales increase by 5.4% to EUR 1,329,080 thousand is caused by the first full-year consolidation of the subsidiaries acquired in 2007, especially of Dolan GmbH which was acquired in December 2007. In addition the market situation and prices of viscose and Tencel fibers were still very good in the first half of 2008. Moreover services rendered to Lenzing Papier GmbH are now presented as external sales. Sales by business 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.

Note 10. Other operating income

This heading comprises:

	2008	2007
	EUR '000	EUR '000
Revenues from investment grants	3,752	3,500
Revenues from government grants for emission allowances	3,181	2,292
Refund for services rendered and maintenance costs	3,582	3,552
Funding of research and development and other subsidies	2,899	1,823
Revenues from staff canteen	1,248	1,119
Insurance compensation	1,859	251
Rental income	1,228	845
Sundry operating income	5,709	1,208
	23,458	**14,590**

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Note 11. Personnel expenses

This heading comprises:

	2008	2007
	EUR '000	EUR '000
Wages and salaries	186,730	177,238
Expenses for severance payments	6,093	5,288
Pension expense	4,125	3,342
Statutory social security contributions	42,846	39,772
Voluntary social spending	4,336	3,619
	244,130	**229,259**

Collective bargaining agreements for the Austrian sites resulted in an increase of 3.7% as of 1 May 2008. Similar agreements at the subsidiaries resulted in increases of 4.2% in the UK, 4.4% in Germany and 6.4% in Indonesia. There were no corresponding, generally binding agreements in the 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:

Number of employees	2008	2007
Average	6,002	5,818*
As at 31 December	5,945	6,043*

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 74,208 thousand (2007: EUR 70,454 thousand) comprises systematic amortization and depreciation.

Note 13. Other operating expenses

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

	2008	2007
	EUR '000	EUR '000
Freight outward	47,044	40,803
Commissions and advertising costs	18,764	18,188
Service and maintenance and other purchased services	31,694	25,123
Insurance	7,859	7,571
Travel expenses	7,811	7,264
Legal, audit and consultancy fees	6,906	7,193
Rentals and leases	4,394	3,396
Waste disposal	3,725	3,042
Emission allowances	3,181	2,292
Foreign currency losses	4,786	5,381
Other	12,036	24,165
	148,200	**144,418**

*) including discontinued operations

Note 14. Income from operations (EBIT)

With EUR 130,314 thousand, the group achieved its second-best EBIT result in corporate history. Nevertheless this means a decline of 19.7% compared with the extraordinary EBIT of 2007. Despite the very good fiber market situation in the first half of the year, the high cost of raw materials and energy as well as the general economic downturn in the third and fourth quarters put significant pressure on the operating result.

In 2008 research and development costs of EUR 18,801 thousand (2007: EUR 18,288 thousand) were recognized in the operating result.

Note 15. Income from investments in associates

The income from investments in associates of EUR 2,574 thousand (2007: EUR 1,301 thousand) comprises the Group's share in the period result of the associated companies and the positive effect resulting from the acquisition of 10% of the shares in EQUI-Fibres Beteiligungsgesellschaft mbH (see note 4). In 2007 the income from investments in associates was reduced by the Group's share in the gain from the sale of Dolan in the amount of EUR 1,477 thousand realized by EQUI group.

Note 16. Other investment income

	2008	2007
	EUR '000	EUR '000
Interest income from		
bank deposits, long-term loans and other receivables	3,921	3,194
available-for-sale investments	939	671
Transfers to profit or loss on sale of available-for-sale investments	169	241
Write-off of long-term loans	(27)	(19)
Result from the sale of available-for-sale investments	(392)	(69)
Net exchange gains/losses from financial assets	1,763	(2,021)
	6,373	**1,997**

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Note 17. Income taxes

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

	2008	2007
	EUR '000	EUR '000
Current tax expense		
relating to current year	27,523	22,666
over-/underprovided in previous years	3,990	(2,858)
	31,513	**19,808**
Deferred tax		
relating to current year	2,882	13,344
relating to prior periods	630	(1,312)
Losses incurred during the business year for which no deferred tax asset was recognized	1,887	711
	5,399	**12,743**
	36,912	**32,551**
Attributable to:		
Continuing operations	36,573	32,765
Discontinued operations	339	(214)

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

	2008	2007
	EUR '000	EUR '000
Continuing operations	114,725	151,015
Discontinued operations	878	(841)
Income before tax	**115,603**	**150,174**
Tax at Austrian tax rate (25%)	28,901	37,544
Tax free income and tax allowances (in particular allowances for research and development)	(410)	(2,314)
Non-deductible expenses and withholding taxes	1,462	307
Income from investments in associates	(640)	(325)
Effect of different tax rates of subsidiaries	702	1,634
Changes of tax rates	(162)	(442)
Tax expense/income relating to prior periods	4,619	(4,169)
Exchange rate differences between functional and local currency	1,996	0
Effect of changes in tax losses and other temporary differences not recognized as deferred tax asset	444	316
Income tax expense recognized in profit or loss	**36,912**	**32,551**

As at 31 December 2008 tax loss carry-forwards amount to EUR 28,274 thousand (2007: EUR 14,427 thousand). In accordance with IAS 12.35 no deferred tax asset was recognized for some part of the unused losses (EUR 17,955 thousand; 2007: EUR 8,711 thousand). The losses may be carried forward indefinitely to offset future profits.

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Note 18. Earnings per share

Earnings per share from continuing operations and from discontinued operations are computed as follows:

	2008	2007
Net income attributable to shareholders of Lenzing AG (EUR '000)	77,726	109,621
Less: Net income from discontinued operations attributable to shareholders of Lenzing AG (EUR '000)	(538)	627
Net income used in the computation of earnings per share from continuing operations (EUR '000)	77,188	110,248
Number of shares	3,675,000	3,675,000
Earnings per share (EUR)		
from continuing operations	21.00	30.00
from discontinued operations	0.15	(0.17)
Earnings per share	**21.15**	**29.83**

Note 19. Intangible assets

Please refer to table "Development of fixed assets" on page 146 pp for a breakdown and the development of intangible assets.

The total carrying amount of "Concessions, industrial property rights, licenses and similar rights" of EUR 17,532 thousand as at 31 December 2008 (31 December 2007: EUR 13,153 thousand) includes EUR 10,110 thousand (31 December 2007: EUR 5,415 thousand) for items developed internally.

Goodwill is tested annually for impairment in the fourth quarter of the reporting period. The recoverable amount is determined by the use of cash flow projections based on financial budgets approved by management. Testing identified no indication of impairment.

Note 20. Property, plant and equipment

Please refer to table "Development of fixed assets" on page 146 pp 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

Property, plant and equipment include assets acquired under a finance lease contract (please refer to note 32).

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.

There are mortgages and other liens on property, plant and equipment. Please refer to note 31 for details. The carrying amount of fixed assets pledged as collateral for financial liabilities is EUR 150,648 thousand (31 December 2007: EUR 101,409 thousand).

Purchase commitments

Open purchase orders for the delivery of property, plant and equipment as at 31 December 2008 came to EUR 57,751 thousand (31 December 2007: EUR 34,055 thousand).

Impairment of assets

Annual impairment tests were carried out on plant and equipment which gave reason to assume that they might 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. Testing did not lead to any write-down of assets.

Note 21. Investments in associates

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

	31/12/2008	31/12/2007
	EUR '000	EUR '000
EQUI-Fibres Beteiligungsgesellschaft mbH, Krefeld, Germany	14,206	11,692
LKF Tekstil Boya Sanayi ve Tikaret A.S., Istanbul, Turkey	70	70
WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H., Vienna, Austria	740	743
RVL Reststoffverwertung Lenzing GmbH, Lenzing, Austria	34	47
Lenzing Papier GmbH, Lenzing, Austria	2,044	0
	17,094	**12,552**

The Group's share in the income of these companies is shown in table "Development of fixed assets" on page 146 pp as either write-up or depreciation.

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

	EQUI	LKF*)	WWE	RVL	LPP
2008	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Sales	133,176	0	0	9,346	67,506
Net income/loss	(366)	0	(10)	5	(1,056)
31/12/2008	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Non-current assets	51,817	1,917	0	0	8,740
Current assets	44,708	123	2,998	252	23,887
Non-current liabilities	32,392	1,769	0	0	3,188
Current liabilities	32,483	0	38	183	24,148
Government grants	342	0	0	0	55
Equity	31,308	271	2,960	69	5,236

	EQUI	LKF	WWE	RVL
2007	EUR '000	EUR '000	EUR '000	EUR '000
Sales	170,605	0	0	8,924
Net income/loss	7,417	0	(10)	14
31/12/2007	EUR '000	EUR '000	EUR '000	EUR '000
Non-current assets	43,212	1,961	0	0
Current assets	65,123	17	3,005	122
Non-current liabilities	36,942	1,699	0	0
Current liabilities	38,221	0	35	28
Equity	33,172	279	2,970	94

*) Preliminary

Note 22. Other financial assets

Please refer to table “Development of fixed assets” on page 146 pp for a breakdown and the development of other financial assets.

Securities held as fixed assets

Securities are valued at market prices.

2008	Market value 31/12	Average effective interest rate	Income for business year
	EUR ‘000	in %	EUR ‘000
Austrian federal bonds	5,367		
Bonds by other issuers	1,699		
Shares and equity funds	1,083		
Other securities	2,121		
	10,270	0.4%	939

2007	Market Value 31/12	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		
	11,784	1.7%	617

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

Loans

The loans of EUR 2,802 thousand (31 December 2007: EUR 596 thousand) included under this heading are granted to third parties.

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Note 23. Other non-current assets

	31/12/2008	31/12/2007
	EUR '000	EUR '000
Other non-current financial assets		
Long-term receivables	1,072	1,066
Other non-current assets		
Share held in a non-profit housing society	1,150	1,150
Pension assets	0	270
Prepaid expenses and deferred costs	276	214
	1,426	**1,634**
	2,498	**2,700**

Note 24. Inventories

	31/12/2008	31/12/2007
	EUR '000	EUR '000
Raw materials and supplies	96,636	83,181
Work in progress	11,802	13,043
Finished goods produced and merchandise held for resale	99,056	65,034
Prepayments	2,442	2,709
	209,936	**163,967**

Raw materials and supplies essentially comprise beech wood for pulp production, pulp and chemicals for cellulose production, synthetic pellets, small parts and replacement parts.

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.

Note 25. Trade receivables

	31/12/2008	31/12/2007
	EUR '000	EUR '000
Trade receivables	128,070	128,874
Provisions for doubtful accounts	(2,663)	(3,697)
	125,407	**125,177**
Amounts due from customers under construction contracts (please refer to Note 26)	9,489	10,620
	134,896	**135,797**

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

Ageing of trade receivables past due but not impaired is as follows:

	31/12/2008	31/12/2007
	TEUR	TEUR
Trade receivables		
not overdue	106,033	115,244
overdue up to 30 days	19,557	17,024
overdue for 31 to 90 days	7,422	2,435
overdue for 91 to 365 days	1,527	1,094
overdue for more than one year	357	0
Carrying amount as at 31 December	**134,896**	**135,797**

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Note 26. Construction contracts

Heading “Trade receivables” includes amounts due from customers under construction contracts of EUR 9,489 thousand (31 December 2007: EUR 10,620 thousand).

At 31 December 2008 aggregate costs incurred under ongoing construction contracts and unrealized recognized profits, less recognized losses, amounted to EUR 29,102 thousand (31 December 2007: EUR 27,922 thousand). Progress billings and advances received from customers under ongoing construction contracts amounted to EUR 20,636 thousand (31 December 2007: EUR 22,219 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 1,023 thousand as at 31 December 2008 (31 December 2007: EUR 4,917 thousand).

Note 27. Other receivables and assets

Other receivables and assets comprise:

	31/12/2008		31/12/2007	
		EUR '000		EUR '000
Other short-term financial assets				
Tax receivables		18,494		22,111
Down payments for derivatives and closed positions	4,844		2,427	
Derivative financial instruments (open positions)	(2,237)	2,607	7,671	10,098
Debit balances on creditors		2,400		3,019
Payments in advance		4,555		1,860
Subsidies		3,723		1,179
Recharge of maintenance costs		4,626		4,822
Insurance compensation		1,676		20
Other		3,736		1,568
		41,817		**44,677**
Other current assets				
Emission allowances		3,415		7
Prepaid expenses and deferred costs		1,544		1,934
		4,959		**1,941**
		46,776		**46,618**

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Ageing of other short-term financial receivables past due but not impaired is as follows:

	31/12/2008	31/12/2007
	TEUR	TEUR
Trade receivables		
not overdue	41,102	44,472
overdue up to 30 days	681	205
overdue for 31 to 90 days	1	0
overdue for 91 to 365 days	33	0
Carrying amount as at 31 December	**41,817**	**44,677**

Note 28. Investments held as current assets

There were no available-for-sale investments held as current assets as at 31 December 2008; they were stated at their market value as at 31 December 2007:

	Market Value in EUR '000		Average yield	
	2008	2007	2008	2007
Bonds	0	8,164		0.50%

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

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Note 29. Equity

Common stock and capital reserve

The common stock of Lenzing AG comprises 3,675,000 no-par value shares (unchanged from 31 December 2007) 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. It is composed of shareholder's funds paid in to Lenzing AG in excess of common stock.

Retained earnings

Retained earnings comprise:

	EUR '000
Revenue reserve of Lenzing AG	254,347
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	176,579
Total	**482,397**

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

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 2008 the parent's accumulated profit was EUR 51,471 thousand.

	EUR '000
Business year 2008 of Lenzing AG ends with a net income of	58,068
Add: profit carried forward from 2007 of	21
Add: Reversal of untaxed reserves of	282
Deduct: Allocation of profit reserves of	(6,900)
Total accumulated profit	**51,471**

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.

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.

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The development of equity is as follows:

Development of Equity

	Common stock	Capital reserves
	EUR '000	EUR '000
As at 1/1/2007	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		
Net income/loss recognized directly in equity	**0**	**0**
Net income		
Total recognized income and expense for 2007	**0**	**0**
Contribution to capital		
Change in scope of consolidation		
Dividends		
Other		
As at 31/12/2007	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		
Net income/loss recognized directly in equity	**0**	**0**
Net income		
Total recognized income and expense for 2008	**0**	**0**
Contribution to capital		
Change in scope of consolidation		
Dividends		
As at 31/12/2008	26,717	63,600

*) The dividend per share was EUR 10 for business year 2006/EUR 14 for business year 2007.

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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
(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
5,042	(17,934)	(12,892)	1,495	(11,397)
	(5,242)	(5,242)	0	(5,242)
	4,511	4,511	18	4,529
5,042	**(18,665)**	**(13,623)**	**1,513**	**(12,110)**
	77,726	77,726	964	78,690
5,042	**59,061**	**64,103**	**2,477**	**66,580**
			4,165	4,165
	110	110	0	110
	(51,450)*	(51,450)	(1,909)	(53,359)
(15,602)	482,397	557,112	22,615	579,727

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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 stimulating 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 that all or part of the grants received will become repayable.

Moreover, this heading comprises the remaining government grants attributable to the emission allowances that were not used for emissions at the balance sheet date in the amount of EUR 675 thousand (31 December 2007: EUR 3 thousand).

Note 31. Liabilities with banks and other loans

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

2008

	Currency	Nominal amount	Carrying amount	Average effective interest rate
		'000	EUR '000	in %
Liabilities with banks				
Loans:				
Fixed interest	EUR	169,813	169,813	3.67
Fixed and variable interest	EUR	0	0	0.00
Variable interest	EUR	85,218	85,218	6.07
	USD	76,433	54,789	4.79
	CNY	299,050	31,404	7.79
Working capital loans*				
variable interest	EUR	65,162	65,162	3.92
	USD	33,128	23,741	4.82
			430,127	
Other loans				
Fixed interest	EUR	5,501	5,501	2.42
	USD	46	33	4.06
Fixed and variable interest	EUR	30,995	30,995	1.49
Variable interest	EUR	2,663	2,663	3.40
	USD	2,662	1,908	6.08
			41,100	
Total financial liabilities			**471,227**	
Short-term			135,355	
Long-term			335,872	

*) Revolving credits and current accounts

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2007

	Currency	Nominal amount	Carrying amount	Average effective interest rate
		'000	EUR '000	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
			298,877	
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
			28,676	
Total financial liabilities			**327,553**	
Short-term			30,009	
Long-Term			297,544	

*) Revolving credits and current accounts

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

	31/12/2008			
	Variable Interest	Fixed and variable interest	Fixed interest	Total
	EUR '000	EUR '000	EUR '000	EUR '000
On demand or within one year	75,732	6,728	52,895	135,355
More than one to two years	30,200	6,484	3,073	39,757
More than two to three years	25,810	5,883	17,111	48,804
More than three to four years	67,536	5,967	83,870	157,373
More than four to five years	30,655	3,633	1,490	35,778
More than five years	34,952	2,300	16,908	54,160
	264,885	**30,995**	**175,347**	**471,227**
Less amounts due for settlement within 12 months	(75,732)	(6,728)	(52,895)	(135,355)
Amounts due for settlement in more than 12 months	**189,153**	**24,267**	**122,452**	**335,872**

	31/12/2007			
	Variable Interest	Fixed and variable interest	Fixed interest	Total
	EUR '000	EUR '000	EUR '000	EUR '000
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
	121,134	**22,682**	**183,737**	**327,553**
Less amounts due for settlement within 12 months	(19,808)	(6,934)	(3,267)	(30,009)
Amounts due for settlement in more than 12 months	**101,326**	**15,748**	**180,470**	**297,544**

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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.

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.

	2008	2007
	EUR '000	EUR '000
Liabilities with banks	113,303	72,615
Assignment of receivables	8,049	9,790
Mortgages, movable fixed assets pledged as collateral	105,254	62,825
Other loans	814	806
Assets leased under a finance lease	814	806

Note 32. Commitments from finance leases

Property, plant and equipment include assets acquired under a finance lease contract. Finance leases mainly comprise agreements 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 814 thousand as at 31 December 2008 (31 December 2007: EUR 806 thousand) and is shown under item "Plant and machinery" in table „Development of fixed assets".

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	2008	2007
	EUR '000	EUR '000	EUR '000	EUR '000
Within one year	12	8	10	7
More than one to five years	26	21	23	18
More than five years	2,167	2,167	915	879
Less:				
Future finance charges	(1,257)	(1,292)	0	0
Present value of lease obligation	**948**	**904**	**948**	**904**

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

Contingent rent to the amount of EUR 400 thousand was recognized as expense in 2008 (2007: EUR 407 thousand).

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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:

	31/12/2008	31/12/2007
Deferred tax assets	EUR '000	EUR '000
Intangible fixed assets	309	0
Property, plant and equipment	170	3,486
Financial assets	1,585	808
Current assets	3,143	2,604
Government grants	386	0
Provisions	8,582	9,116
Liabilities	421	517
Loss-carry-fowards	7,940	3,998
	22,536	**20,529**
Valuation allowance	(4,312)	(5,529)
Total deferred tax assets	**18,224**	**15,000**
Offset against deferred tax liabilities	(16,300)	(14,136)
Net deferred tax assets	**1,924**	**864**

	31/12/2008	31/12/2007
Deferred tax liabilities	EUR '000	EUR '000
Intangible fixed assets	1,926	1,852
Property, plant and equipment	31,498	25,531
Financial assets	221	208
Current assets	3,072	4,287
Accelerated depreciation for taxation purposes	1,197	1,271
Government grants	1,181	886
Liabilities	5,421	6,244
Total deferred tax liabilities	**44,516**	**40,279**
Offset against deferred tax assets	(16,300)	(14,136)
Net deferred tax liabilities	**28,216**	**26,143**

Deferred taxes developed as follows:

	31/12/2008	31/12/2007	Change
	EUR '000	EUR '000	EUR '000
Deferred tax assets	1,924	864	1,060
Deferred tax liabilities	(28,216)	(25,918)	(2,298)
Discontinued operations	0	(225)	225
Net	**(26,292)**	**(25,279)**	**(1,013)**

Thereof:	
directly credited to equity	4,529
currency translation adjustment	(351)
recognized as expense in the income statement	(5,380)
included in the result of discontinued operations	(19)
divestiture of discontinued operations	208
	(1,013)

At both 31 December 2008 and 31 December 2007, 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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Note 34. Provisions

The Group's provisions comprise:

2008	Balance as at 1/1	Currency translation adjustment	Reclassification	Transfer to discontinued operations
	EUR '000	EUR '000	EUR '000	EUR '000
Severance payments	51,817	0	0	0
Pensions	27,812	(368)	0	0
Anniversary bonuses	13,698	0	0	0
Unconsumed vacation	8,981	(28)	0	0
Restructuring	393	0	0	0
Other personnel costs	23,795	(34)	(65)	0
Guarantees and warranties	688	26	0	0
Anticipated losses and other risks	11,960	(207)	0	0
Emission allowances	4	0	0	0
Other	33,260	495	65	0
Provisions	**172,408**	**(116)**	**0**	**0**

2007	Balance as at 1/1	Currency translation adjustment	Acquisition of subsidiaries	Transfer to discontinued operations
	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
Emission allowances	1,918	0	0	0
Other	18,918	(344)	2,372	(468)
Provisions*	**143,486**	**(1,269)**	**8,190**	**(4,331)**

*) Provisions comprised unrealized losses from derivative financial instruments (as at 1/1: EUR 85 thousand, as at 31/12: EUR 1,108 thousand). Those were reclassified to "other liabilities" in the reporting period (please refer to note 35). Comparative 2007 figures were adjusted.

Utilization	Reversal	Period Charge	Balance as at 31/12	Short-term	Long-term
EUR '000	EUR '000	EUR '000	**EUR '000**	EUR '000	EUR '000
(4,380)	0	7,778	**55,215**	1,523	53,692
(2,210)	(197)	5,816	**30,853**	1,973	28,880
(1,031)	(39)	381	**13,009**	969	12,040
(8,776)	0	7,840	**8,017**	8,017	0
(7)	0	2,500	**2,886**	2,886	0
(21,889)	(850)	22,658	**23,615**	23,546	69
(645)	(13)	446	**502**	452	50
(1,314)	(3,599)	1,786	**8,626**	8,626	0
(4)	0	2,740	**2,740**	2,740	0
(19,579)	(4,333)	22,414	**32,322**	32,322	0
(59,835)	**(9,031)**	**74,359**	**177,785**	**83,054**	**94,731**

Utilization	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	**51,817**	360	51,457
(2,109)	(167)	2,815	**27,812**	1,959	25,853
(612)	0	1,341	**13,698**	999	12,699
(6,611)	0	9,342	**8,981**	8,981	0
(222)	(150)	0	**393**	393	0
(18,296)	(4)	22,830	**23,795**	23,735	60
(117)	(851)	285	**688**	614	74
(53)	(481)	5,166	**11,960**	11,960	0
(1,918)	0	4	**4**	4	0
(14,908)	(1,500)	29,190	**33,260**	33,260	0
(48,069)	**(3,153)**	**77,554**	**172,408**	**82,265**	**90,143**

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Provisions for other 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.

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 2008 P – 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.

The principal actuarial assumptions are:

Actuarial assumptions

Discount rate p. a. in %	2008	2007
Austria	4.5	4.0
Germany	4.5	4.0 – 5.3
USA	6.3	6.0
Indonesia	11.0	11.0
Hong Kong	1.1	3.5
Estimated future salary and pension increases p. a. in %		
Austria	2.5 – 3.0	2.0 – 2.5
Germany	2.0 – 4.0	1.5 – 4.0
USA	0.0	0.0
Indonesia	9.0	9.0
Hong Kong	4.0	3.0
Expected rate of return on plan assets p. a. in %		
Austria	4.8	5.6
Germany	4.0	4.0
USA	7.5	7.5
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:

	2008	2007
	EUR '000	EUR '000
Interest cost	1,637	1,548
Current service cost	375	338
Past service cost	43	50
Administrative and other costs	1	1
Expected return on plan assets	(468)	(430)
Total expense	**1,588**	**1,507**

Expenses are presented in the income statement under the heading "personnel expenses", namely under "pension expense".

The actual loss on plan assets was EUR 637 thousand (return 2007: EUR 547 thousand).

Actuarial losses recognized directly in equity in 2008 came to EUR 4,274 thousand (2007: EUR 1,296 thousand). Accumulated actuarial losses as at 31 December 2008 came to EUR 9,518 thousand (31 December 2007: EUR 5,244 thousand).

The amount presented in the balance sheet as obligation from defined benefit pension plans (DBO) is derived as follows:

	31/12/2008	31/12/2007
	EUR' 000	EU' 000
Present value of obligation (DBO)	37,997	35,505
Fair value of plan assets	(6,951)	(7,705)
Deficit in plan	**31,046**	**27,800**
Unrecognized past service cost	(193)	(258)
Net amount recognized in the balance sheet	**30,853**	**27,542**
Presented as:		
Nun-current assets	0	(270)
Long-term provision	28,880	25,853
Short-term provision	1,973	1,959
	30,853	**27,542**

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

	2008	2007
	EUR '000	EUR '000
Present value of obligation (DBO) as at 1/1	**35,505**	**31,100**
Acquisition of subsidiaries	0	4,438
Interest cost	1,636	1,548
Current service cost	375	338
Actuarial loss	3,125	1,359
Currency translation adjustment	(204)	(828)
Benefits paid	(2,522)	(2,450)
Transfer	82	0
Present value of obligation (DBO) as at 31/12	**37,997**	**35,505**
Fair value of plan assets as at 1/1	**7,705**	**7,265**
Acquisition of subsidiaries	0	382
Contributions	48	241
Administrative and other costs	(1)	(1)
Expected return on plan assets	468	430
Actuarial loss (-)/gain (+)	(1,149)	64
Benefits paid	(332)	(341)
Currency translation adjustment	212	(335)
Fair value of plan assets as at 31/12	**6,951**	**7,705**

The composition of plan assets by asset categories is as follows:

	2008	2007
	EUR '000	EUR '000
Equity instruments	1,267	2,008
Debt instruments	1,112	135
Insurance policies qualifying as plan assets	4,547	4,579
Other assets	25	983
Balance as at 31/12	**6,951**	**7,705**

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

	2008	2007	2006	2005
	EUR '000	EUR '000	EUR '000	EUR '000
Present value of defined benefit obligation (DBO)	37,997	35,505	31,100	32,249
Fair value of plan assets	(6,951)	(7,705)	(7,265)	(7,315)
Deficit	**31,046**	**27,800**	**23,835**	**24,934**
Experience adjustments (gain(+)/loss(-)):				
on present value of obligation (DBO)	(1,527)	(343)	(18)	(917)
on plan assets	(1,038)	58	44	(69)

The Group expects to make contributions of EUR 107 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 2008 came to EUR 2,474 thousand (2007: EUR 1,797 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.

Notes

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

	2008	2007
	EUR '000	EUR '000
Present value of obligation (DBO) as at 1/1	**51,817**	**50,720**
Interest cost	1,985	1,938
Current service cost	3,004	3,003
Total expense	**4,989**	**4,941**
Transfer to discontinued operations	0	(2,263)
Benefits paid	(4,380)	(3,223)
Actuarial loss	2,789	1,642
Present value of obligation (DBO) as at 31/12	**55,215**	**51,817**
Number of eligible persons	2,288	2,382
Actuarial assumptions		
Discount rate in % p. a.	4.5	4.0
Estimated future salary increases in % p. a.	3.5	3.0

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 2,789 thousand (31 December 2007: EUR 1,642 thousand). Accumulated actuarial losses as at 31 December 2008 came to EUR 7,682 thousand (31 December 2007: EUR 4,893 thousand).

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

	2008	2007	2006	2005
	EUR '000	EUR '000	EUR '000	EUR '000
Present value of defined benefit obligation (DBO)	55,215	51,817	50,720	48,364
Experience adjustments (gain(+)/loss(-)) on present value of obligation (DBO)	(3,505)	(1,642)	(169)	(582)

Staff members with employment contracts under Austrian law with a commencement date later than 31 December 2002 obtain no entitlement for severance payment. Contributions in the form of 1.53% of the respective wage or salary are paid into a separate precautionary fund for employees ("Mitarbeitervorsorgekasse"). In 2008 contributions of EUR 448 thousand (2007: EUR 335 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:

	2008	2007
	EUR '000	EUR '000
Present value of obligation (DBO) as at 1/1	**13,698**	**13,405**
Interest cost	530	536
Current service cost	653	491
Actuarial gain (-)/loss (+)	(841)	314
Total expense	**342**	**1,341**
Acquisition of subsidiaries	0	221
Transfer to discontinued operations	0	(657)
Benefits paid	(1,031)	(612)
Present value of obligation (DBO) as at 31/12	**13,009**	**13,698**
Number of eligible persons	2,642	2,678
Actuarial assumptions		
Discount rate in % p.a.	4.5	4.0 - 5.3
Estimated future salary increases in % p.a.	2.5 - 3.5	2.5 - 3.0

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

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Note 35. Other liabilities

Other liabilities comprise:

	31/12/2008	31/12/2007
	EUR '000	EUR '000
Other long-term financial liabilities		
Early retirement	911	2,156
Interest accruals	24	27
	935	**2,183**
Other non-current liabilities		
Deferred income	47	204
	47	**204**
Other non-current liabilities	**982**	**2,387**
Other short-term financial liabilities		
Advances from customers	5,648	7,631
Tax liabilities	4,643	5,075
Social security and other statutory welfare contributions	3,778	3,457
Payroll	4,217	4,445
Early retirement	1,698	2,016
Derivative financial instruments	19,062	1,108
Credit balances on debtors	4,092	1,629
Acquisition of subsidiaries	0	8,545
Sundry	5,404	13,840
	48,542	**47,746**
Other current liabilities		
Deferred income	232	1,247
	232	**1,247**
Other current liabilities*	**48,774**	**48,993**

*) In the reporting period unrealized losses from derivative financial instruments were reclassified from other provisions short-term to other current liabilities (please refer to note 34). Comparative 2007 figures were adjusted.

Note 36. Financial instruments

36.1. 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 borrowings detailed in note 36.3., 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 and agreed with the management board. Development of competitors and market factors and market elasticity play an essential role.

Special attention is paid to the development of net debt as the two key parameters, net debt and EBITDA, over the past years 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 therefore only ensured by very good equity financing power (EBITDA) being the basis for enhanced debt capacity.

Net debt and EBITDA are as follows:

Net debt	2008	2007
	EUR '000	EUR '000
Interest bearing financial debt[1]	471,227	339,202
Cash and cash equivalents (-)	(105,795)	(119,600)
Net Debt	**365,432**	**219,602**

EBITDA[2]	2008	2007
	EUR '000	EUR '000
EBIT	130,314	162,324
Depreciation (+)	74,208	70,454
Reversal of government grants (-)	(3,752)	(3,500)
EBITDA	**200,770**	**229,278**
Net debt/EBITDA	1.8	1.0

[1] Interest-bearing financial debt is defined as long-term and short-term financial liabilities as set out in Note 31. [2] From continuing operations

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36.2. 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.

36.3. Categories of financial instruments

	31/12/2008		31/12/2007	
	Carrying amount	Fair value	Carrying amount	Fair value
	EUR '000	EUR '000	EUR '000	EUR '000
Financial Assets				
Loans and receivables at amortized cost (including cash and cash equivalents):				
Cash and cash equivalents	105,795	105,795	110,936	110,936
Trade receivables	134,896	134,896	135,797	135,797
Long-term loans to third parties	2,802	2,802	596	596
Other long-term receivables	1,072	1,072	1,066	1,066
Other short-term receivables	44,054	44,054	37,008	37,008
Financial assets attributable to discontinued operations	0	0	6,934	6,934
Available -for-sale financial assets:				
Securities held as fixed assets	10,270	10,270	11,784	11,784
Securities held as current assets	0	0	8,164	8,164
Derivative instruments designated in effective hedging relationships	(2,237)	(2,237)	7,669	7,669
Other derivative financial instruments	0	0	2	2
	296,652	**296,652**	**319,956**	**319,956**
Financial liabilities				
Financial liabilities at amortized cost:				
Liabilites with banks and other loans at variable interest	264,885	264,885	121,134	121,134
Liabilities with banks and other loans at fixed and combined interest	206,342	209,721	206,419	200,057
Trade payables	66,190	66,190	100,956	100,956
Other non current payables	935	935	2,183	2,183
Other current payables	29,480	29,480	46,637	46,637
Financial liabilities attributable to discontinued operations	0	0	15,640	15,640
Derivative instruments designated in effective hedging relationships	7,647	7,647	1,044	1,044
Other derivative financial instruments	11,415	11,415	64	64
	586,894	**590,273**	**494,077**	**487,715**

The market values of cash and cash equivalents and investments held as fixed and current assets are equivalent to their carrying amounts. 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.

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

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 an entity´s functional currency is hedged with foreign currency forward contracts and options which are recognized at market value. Despite its hedging activities the Lenzing Group was exposed to operative exchange rate risk at the reporting date.

The 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 designated to hedge exchange rate risk almost fully offset exchange rate related changes in the values of the underlying transaction in the same period in 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. 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 the budgeting process. Purchases in a specific foreign currency and sales in the same foreign currency are pooled and hedged as a group. The budgeted net exposure for business year 2009 was completely hedged as at 31 December 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 2008, the result from cash flow hedges would have been higher by EUR 32,277 thousand or lower by EUR 23,263 thousand, respectively.

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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:

Type of derivative financial instrument	31/12/2008			31/12/2007		
		Nominal	Gain (+)/loss (-)		Nominal	Gain (+)/loss (-)
Foreign currency/functional currency		in '000	EUR '000		in '000	EUR '000
Forward contracts						
CHF purchase/USD sale	CHF	700	44.8	CHF	0	0.0
EUR purchase/USD sale	EUR	4,040	(191.4)	EUR	0	0.0
JPY sale/EUR purchase	JPY	0	0.0	JPY	9,261	0.2
EUR purchase/GBP sale	EUR	1,714	(182.6)	EUR	0	0.0
IDR purchase/USD sale	IDR	165,965	(386.3)	IDR	0	0.0
EUR sale/GBP purchase	EUR	0	0.0	EUR	3,800	(128.8)
USD sale/GBP purchase	USD	0	0.0	USD	2,850	126.7
GBP sale/EUR purchase	GBP	0	0.0	GBP	292	28.0
USD purchase/GBP sale	USD	100	1.1	USD	0	0.0
EUR sale/GBP purchase	EUR	5,000	532.7	EUR	0	0.0
USD sale/EUR purchase	USD	3,276	(45.5)	USD	17,495	1,541.1
USD sale/GBP purchase	USD	7,500	(996.7)	USD	0	0.0
Total			**(1,223.9)**			**1,567.2**

Cash flow hedges (effective)

The contracts in effective cash flow hedges have maturities of up to 13 months.

Gains or losses from measuring effective 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 minus 5,619 thousand as at 31 December 2008 and to EUR 4,037 thousand as at 31 December 2007.

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

Type of derivative financial instrument	31/12/2008			31/12/2007		
		Nominal	Gain (+)/loss (-)		Nominal	Gain (+)/loss (-)
Foreign currency/functional currency		in '000	EUR '000		in '000	EUR '000
Forward contracts						
CZK purchase/EUR sale	CZK	93,800	(108.0)	CZK	195,000	233.8
GBP sale/EUR purchase	GBP	0	0.0	GBP	8	0.8
GBP purchase/EUR sale	GBP	0	0.0	GBP	100	(6.1)
IDR purchase/USD sale	USD	0	0.0	USD	800	1.8
EUR sale/GBP purchase	EUR	3,314	(226.5)	EUR	22,000	(902.9)
JPY sale/EUR purchase	JPY	40,600	(40.7)	JPY	0	0,0
USD sale/EUR purchase	USD	101,000	(218.7)	USD	150,587	4,703.4
USD sale/GBP purchase	USD	13,600	(1,676.9)	USD	15,000	(18.4)
Total			**(2,270.8)**			**4,012.4**
Options						
USD sale/EUR purchase	USD	85,200	(1,672.6)	USD	0	0.0
USD sale/GBP purchase	USD	13,200	(1,675.4)	USD	0	0.0
CHF sale/EUR purchase	CHF	0	0.0	CHF	8,000	24.7
Total			**(3,348.0)**			**24.7**
Grand total			**(5,618.8)**			**4,037.1**

Notes

Other cash flow hedges

Other cash flow hedges have maturities of up to 20 months.

Gains or losses from measuring other cash flow hedges 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:

Type of derivative financial instrument	31/12/2008			31/12/2007		
Foreign currency/functional currency		Nominal in '000	Gain (+)/loss (-) EUR '000		Nominal in '000	Gain (+)/loss (-) EUR '000
Options						
USD sale/EUR purchase	USD	221,900	(11,415.2)	USD	0	0.0
Total			**(11,415.2)**			**0.0**

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 as well as aluminum price volatility. The hedging strategies are defined on the basis of planned consumption 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/aluminum purchases. Before the end of the month preceding the month when the hedged deliveries take place the future contracts are sold and at the same time the prices for the purchases of the next month are determined. The hedges at 31 December 2008 have maturities of up to 12 months. Unrealized losses from the valuation of open contracts and the sale of closed future contracts at the reporting date came to EUR 3,145 thousand (gain 2007: EUR 1,138 thousand). They were recognized directly in equity and will be transferred to the operating result as soon as the delivered commodity is recognized as cost.

In addition, a forward contract covering the sale of emission allowances that will not be used is in the books. The unrealized gain in the amount of EUR 103 thousand was recognized in the operating result.

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

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 13,072 thousand (2007: EUR 12,380 thousand; please refer to note 22). 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 (lower) as at 31 December 2008, interest expense for floating-rate liabilities would have been higher (lower) by EUR 1,968 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 2008 the Group had at its disposal open credit lines confirmed in writing of EUR 248,003 thousand (31 December 2007: 281,190 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 2,802 thousand), securities held as fixed and current assets (EUR 10,270 thousand), receivables (EUR 180,022 thousand) and liquid funds (EUR 105,795 thousand). In addition, the Group has assumed liability for other companies amounting to EUR 8,142 thousand of which EUR 7,642 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 counter 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 264,885 thousand lead to fluctuations in cash flows related to these liabilities, that is, interest expense, whenever there are changes in the market interest rate.

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Note 37. 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.

Gross cash flow is computed as follows:

	2008	2007
	EUR '000	EUR '000
Net income	**78,690**	**117,623**
+ Loss/- Gain from discontinued operations	(538)	627
+ Depreciation of		
property, plant and equipment and amortization of intangible assets	74,208	70,454
financial assets	27	19
- Release of investment grants previously recognized as deferred income	(3,752)	(3,500)
- Write-ups of financial assets	(174)	(243)
+ Charge for/- Consumption or reversal of long-term provisions	(1,204)	1,523
- Gains/+ Losses on the disposal of		
intangible assets, property, plant and equipment	1,355	3,028
financial assets	92	68
- Deferred tax income/+ deferred tax expense	5,380	12,627
- Non-cash income from associated companies	(2,574)	(1,301)
- Other non-cash income/+ expense	6,303	2,713
Gross cash flow	**157,813**	**203,638**

The change in working capital of continuing operations comprises:

	2008	2007
	EUR '000	EUR '000
+ Decrease/- increase in inventories	(41,372)	(34,348)
+ Decrease/- increase in accounts receivable	(453)	(10,562)
- Decrease/+ increase in operating liabilities	(66,749)	67,451
Change in working capital	**(108,574)**	**22,541**

The cash flow from investing activities of continuing operations comprises:

	2008	2007
	TEUR	TEUR
- Acquisition of non-current assets		
Intangible assets, property, plant and equipment and financial assets	**(160,871)**	**(265,748)**
+ Proceeds from the sale/repayment of non-current assets		
Intangible assets and property, plant and equipment	938	220
Financial assets	2,964	6,408
	3,902	**6,628**
+ Proceeds from the sale of securities held as current assets	**8,072**	**0**

Payments of other shareholders concern payments of the minority shareholders of European Precursor GmbH on their share in capital.

Receipts from financing activities comprise:

	2008	2007
	EUR '000	EUR '000
+ Investment grants	1,970	835
+ Net receipts from short-term loans	45,506	12,251
+ Receipts from long-term loans and borrowings	119,101	178,608
Receipts from financing activities	**166,577**	**191,694**

The Group's liquid funds comprise:

	31/12/2008	31/12/2007
	EUR '000	EUR '000
Cash	105,795	110,936
Cash and cash equivalents included in assets of discontinued operations	0	500
Total	**105,795**	**111,436**

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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 dividend tax payments and receipts:

	2008	2007
	EUR '000	EUR '000
Interest received	1,818	3,930
Interest paid	15,053	14,682
Taxes paid	43,507	20,526

Note 38. Operating leases

The Group has commitments under operating leases of property, plant and equipment that are not recognized in the balance sheet. Operating expenses for 2008 include leasing and rental expenses of EUR 4,030 thousand (2007: EUR 3,492 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:

	2008	2007
	EUR '000	EUR '000
Within one year	3,679	3,164
In the following 2 to 5 years	7,693	7,294
Thereafter	1,524	2,024
Total	**12,896**	**12,482**

Note 39. 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 Beteiligungsverwaltungs GmbH and B & C Privatstiftung. B & C Beteiligungsverwaltungs 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

No management fees were paid by subsidiaries to minority shareholders, the comparative for 2007 amounted to EUR 1,038 thousand.

Lenzing AG provided loans to minority shareholders of subsidiaries, the outstanding balance being EUR 344 thousand as at 31 December 2008 (31 December 2007: EUR 327 thousand). The balance of the provision for doubtful debt relating to these loans is EUR 185 thousand (31 December 2007: EUR 176 thousand). Liabilities include loans of minority shareholders amounting to

EUR 1,907 thousand (31 December 2007: EUR 3,184 thousand). These are subordinated loans at variable interest. The interest rate is based on LIBOR plus a surcharge and is adjusted every six months.

Business transactions with associated companies

These transactions were essentially with:

- **EQUI-Fibres Beteiligungsgesellschaft mbH and its subsidiaries:**
  Supply of pulp, machinery and equipment
  Use of infrastructure and purchase of assembly and administrative services, purchase of spinning raw material

- **RVL Reststoffverwertung Lenzing GmbH**
  Operation of a recycling facility and purchase of generated steam

- **Lenzing Papier GmbH**
  Provision of infrastructure and supply of administrative services

Significant transactions and outstanding balances with associated companies are:

	EQUI	RVL	LPP
2008	EUR '000	EUR '000	EUR '000
Sales	41,521	9,177	8,530
Other operating income	570	82	0
Cost of material	5,026	0	35
Cost of purchased services	10,641	9,177	0
Other operating expenses	908	0	59
Interest expense	359	0	0
31/12/2008	EUR '000	EUR '000	EUR '000
Trade receivables	3,779	0	3,564
Amounts due under construction contracts	6,920	0	0
Other receivables	0	87	839
Trade payables	1,946	0	0
Other liabilities	2,341	0	0

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2007	EQUI	RVL
	EUR '000	EUR '000
Sales	46,025	8,817
Other operating income	218	223
Cost of material	5,084	0
Cost of purchased services	0	8,817
Other operating expenses	9	11
Interest income	32	0
31/12/2007	EUR '000	EUR '000
Trade receivables	4,865	0
Amounts due under construction contracts	6,563	0
Other receivables	17	0
Trade payables	667	0
Other liabilities	19,306	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:

	2008	2007
	EUR '000	EUR '000
Short-term employee benefits	2,484	2,294
Post-employment benefits	69	159
	2,553	**2,453**

Payments to former members of the management board or their dependents came to EUR 801 thousand in 2008 (2007: EUR 774 thousand).

Note 40. Contingent liabilities and financial guarantee contracts

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

	2008	2007
	EUR '000	EUR '000
Assumption of liability for associated companies	7,642	10,106
Assumption of liability for third parties	500	500

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 41. Events after the balance sheet date

No material events that would require disclosure occurred after the balance sheet date.

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Note 42. Direct and indirect investments of Lenzing AG as at 31 December 2008

Investment	Currency	Common stock	Ownership interest
			in %
Fully consolidated companies:			
Avit Investments Limited, Turks and Caicos	USD	2,201,000	100.00
Beech Investment s.r.o., Zlaté Moravce, Slovakia	SKK	200,000	100.00
BZL-Bildungszentrum Lenzing GmbH, Lenzing, Austria	EUR	43,604	75.00
Dolan GmbH, Kelheim, Germany	EUR	1,000,000	100.00
Energie- und Medienzentrale Heiligenkreuz GmbH, Heiligenkreuz, Austria	EUR	72,673	100.00
European Precursor GmbH, Kelheim, Germany	EUR	25,000	51.00
European Carbon Fiber GmbH, Kelheim, Germany	EUR	25,000	95.00
Hahl Group GmbH, Munderkingen, Germany	EUR	30,000	100.00
Hahl Filaments GmbH, Munderkingen, Germany	EUR	25,600	100.00
Hahl Verwaltungsgesellschaft mbH, Munderkingen, Germany	EUR	25,600	100.00
Hahl Extrusions Ltd., Durham, UK	GBP	1,062,555	100.00
Hahl RecyTec GmbH, Rottenacker, Germany	EUR	25,000	100.00
Hahl Filaments s.r.o., Sezimovo Ústí, Czech Republic	CZK	5,000,000	100.00
Hahl Inc., Lexington, SC, USA	USD	100	100.00
LENO Electronics GmbH, Schörfling, Austria	EUR	40,000	55.00
Lenzing Beteiligungs GmbH, Lenzing, Austria	EUR	35,000	100.00
Lenzing Fibers (Shanghai) Co., Ltd., Shanghai, China	USD	200,000	100.00
Lenzing Fibers GmbH, Heiligenkreuz, Austria	EUR	363,364	100.00
Lenzing Fibers Holding GmbH, Lenzing, Austria	EUR	35,000	100.00
Lenzing Fibers (Hong Kong) Ltd., Hong Kong	HKD	16,000,000	100.00
Lenzing Fibers Inc., New York, USA	USD	10	100.00
Lenzing Fibers Ltd., Manchester, UK	GBP	1	100.00
Lenzing Holding GmbH, Lenzing, Austria	EUR	35,000	100.00
Lenzing (Nanjing) Fibers Co., Ltd., Nanjing, China	USD	37,000,000	70.00
Lenzing Plastics GmbH, Lenzing, Austria	EUR	35,000	100.00
LP Automotive GmbH, Lenzing, Austria	EUR	35,000	100.00
Lenzing Services Ltd., Nottingham, UK	GBP	1,000	100.00

Investment	Currency	Common stock	Ownership interest
			in %
Fully consolidated companies:			
Lenzing Technik GmbH, Lenzing, Austria	EUR	35,000	100.00
Lenzing USA Inc., Lexington, SC, USA	USD	100	100.00
Lyocell Holding Ltd., Manchester, UK	GBP	1,000	100.00
Pedex GmbH, Wald-Michelbach, Germany	EUR	25,000	100.00
Pedex Grundstücksgesellschaft mbH, Wald-Michelbach, Germany	EUR	25,000	100.00
Penique S.A., Panama	USD	5,000	100.00
PT. South Pacific Viscose, Purwakarta, Indonesia	IDR	72,500,000,000	85.79
Pulp Trading GmbH, Lenzing, Austria	EUR	40,000	100.00
Tencel Holding Ltd., Manchester, UK	GBP	1	100.00
Tencel Holding Overseas Ltd., Jersey, Channel Islands	GBP	1,001	100.00
Wasserreinhaltungsverband Lenzing-Lenzing AG, Lenzing, Austria	EUR	0	Membership
Companies accounted for at equity:			
RVL Reststoffverwertung Lenzing GmbH, Lenzing, Austria	EUR	36,336	50.00
WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H., Vienna, Austria	EUR	36,336	25.00
EQUI-Fibres Beteiligungsgesellschaft mbH, Krefeld, Germany	EUR	2,000,000	45.00
LKF Tekstil Boya Sanayi ve Ticaret A.S., Istanbul, Turkey	TRL	200,000	33.34
Lenzing Papier GmbH, Lenzing, Austria	EUR	35,000	40.00
Companies that are not consolidated:*			
Erwin Hahl Unterstützungskasse Gesellschaft mit beschränkter Haftung, Munderkingen, Germany	EUR	25,565	100.00
Gemeinnützige Siedlungsgesellschaft m.b.H. für den Bezirk Vöcklabruck, Lenzing, Austria	EUR	1,155,336	99.90

*) Although the Lenzing Group holds the majority of shares in these companies they are not consolidated as the Group does not exercise any control in the management sense of the term.

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Note 43. Corporate Bodies

Members of the Supervisory Board

Karl Schmutzer, Vienna (until 1 February 2008)
Chairman

Hermann Bell, Linz
Chairman (from 12 June 2008)

Walter Lederer, Vienna
Deputy Chairman

Horst Bednar, Vienna

Winfried Braumann, Vienna (from 12 June 2008)

Martin Payer, Leoben

Andreas Schmidradner, Vienna (from 12 June 2008)

Veit Sorger, Vienna

Works Council Representatives

Rudolf Baldinger
Chairman of the Company's Works Committee
Chairman of the Blue-Collar Workers' Council

Helmut Maderthaner (until 11 November 2008)
Deputy Chairman of the Company´s Works Committee
(until 11 November 2008)
Chairman of the White-Collar Workers' Council (until 29. October 2008)

Georg Liftinger (from 12 June 2008)
Deputy Chairman of the Company´s Works Committee
(from 11 November 2008)
Chairman of the White-Collar Workers' Council (from 29 October 2008)

Gerhard Ratzesberger (from 11 November 2008)
Deputy Chairman of the White-Collar Workers' Council
(from 29 October 2008)

Johann Schernberger
Deputy Chairman of the Blue-Collar Workers' Council

Members of the Management Board

Peter Untersperger
Chairman (from 1 January 2009)

Christian Reisinger

Friedrich Weninger
(from 1 January 2009)

Thomas Fahnemann
(until 31 December 2008)
Chairman

The present consolidated financial statements were released on 25 March 2009 by the management board for examination by the supervisory board, for submission to the general 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, 25 March 2009

The Management Board

Peter Untersperger

Christian Reisinger

Friedrich Weninger

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Development of fixed assets 2008

	Costs							
	as at 01/01/2008 EUR '000	Acquisition of subsidiaries EUR '000	Transfer to discontinued operations EUR '000	Additions 2008 EUR '000	Disposals 2008 EUR '000	Reclassifications 2008 EUR '000	Currency translation adjustment EUR '000	as at 31/12/2008 EUR '000
Development of intangible assets								
1. Concessions, industrial property rights and similar rights	31,994	0	0	5,979	(85)	0	63	37,951
thereof: internally generated	14,042	0	0	5,332	0	0	0	19,374
2. Goodwill	72,744	0	0	0	0	0	2,831	75,575
3. Prepayments	0	0	0	0	0	0	0	
Total for intangible assets	**104,738**	**0**	**0**	**5,979**	**(85)**	**0**	**2,894**	**113,526**
Development of property, plant and equipment								
1. Land and buildings	258,555	0	0	6,403	(2,124)	4,344	1,180	268,358
2. Plant and machinery, fixtures, fittings and other assets	1,328,690	0	0	74,620	(18,310)	31,917	3,590	1,420,507
3. Prepayments and work under construction	41,229	0	0	71,577	0	(36,261)	1,988	78,533
Total for property, plant and equipment	**1,628,474**	**0**	**0**	**152,600**	**(20,434)**	**0**	**6,758**	**1,767,398**
Development of financial assets								
1. Investments in associates	2,267	0	0	2,674	0	0	0	4,941
2. Loans	823	0	0	2,803	(593)	3	0	3,036
3. Securities	40,719	0	0	1,809	(2,715)	0	0	39,813
Total for financial assets	**43,809**	**0**	**0**	**7,286**	**(3,308)**	**3**	**0**	**47,790**

Accumulated depreciation and amortization									
as at 01/01/2008 EUR '000	Transfer to discon-tinued operations EUR '000	Depre-ciation 2008 EUR '000	Write-ups 2008 EUR '000	Disposals 2008 EUR '000	Reclassifi-cations 2008 EUR '000	Currency translation adjustment EUR '000	as at 31/12/2008 EUR '000	Carrying amount as at 31/12/2008 EUR '000	Carrying amount as at 31/12/2007 EUR '000
18,841	0	1,642	0	(85)	0	21	20,419	17,532	13,153
8,627	0	637	0	0	0	0	9,264	10,110	5,415
0	0	0	0	0	0	0	0	75,575	72,744
0	0	0	0	0	0	0	0	0	0
18,841	**0**	**1,642**	**0**	**(85)**	**0**	**21**	**20,419**	**93,107**	**85,897**
133,165	0	8,243	0	(757)	0	(452)	140,199	128,159	125,390
796,505	0	64,323	0	(15,154)	0	713	846,387	574,120	532,185
35	0	0	(35)	0	0	0	0	78,533	41,194
929,705	**0**	**72,566**	**(35)**	**(15,911)**	**0**	**261**	**986,586**	**780,812**	**698,769**
(10,285)	0	440	(2,308)	0	0	0	(12,153)	17,094	12,552
227	0	20	(13)	0	0	0	234	2,802	596
28,935	0	615	0	(7)	0	0	29,543	10,270	11,784
18,877	**0**	**1,075**	**(2,321)**	**(7)**	**0**	**0**	**17,624**	**30,166**	**24,932**

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Development of fixed assets 2007

	Costs							
	as at 01/01/2007 EUR '000	Acquisition of subsidiaries EUR '000	Transfer to discontinued operations EUR '000	Additions 2007 EUR '000	Disposals 2007 EUR '000	Reclassifications 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
Total for intangible assets	**28,646**	**79,370**	**(72)**	**4,175**	**(1,006)**	**0**	**(6,375)**	**104,738**
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
Total for property, plant and equipment	**1,547,151**	**34,995**	**(52,484)**	**132,552**	**(10,673)**	**0**	**(23,067)**	**1,628,474**
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
Total for financial assets	**49,046**	**17**	**(35)**	**494**	**(5,709)**	**(4)**	**0**	**43,809**

Accumulated depreciation and amortization									
as at 01/01/2007 EUR '000	Transfer to discon-tinued operations EUR '000	Depre-ciation 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
17,727	**(37)**	**1,634**	**0**	**(455)**	**0**	**(28)**	**18,841**	**85,897**	**10,919**
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
921,174	**(42,712)**	**68,868**	**0**	**(7,975)**	**0**	**(9,650)**	**929,705**	**698,769**	**625,977**
(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
21,476	**0**	**310**	**(2,785)**	**(123)**	**(1)**	**0**	**18,877**	**24,932**	**27,570**

Auditor's Report

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 2008 to 31 December 2008. These consolidated financial statements comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended 31 December 2008, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the bookkeeping of the Group and 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). Those 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 appropriateness 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 2008, and of its financial performance and its cash flows for the financial year from 1 January 2008 to 31 December 2008 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on the Consolidated Management Report

Laws and regulations 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. The auditor´s report also has to include an opinion as to whether the consolidated management report is consistent with the consolidated financial statements.

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

Vienna, 25 March 2009

Deloitte.

Eidos Deloitte
Chartered Accountants
and Tax Consultants

Nikolaus Schaffer
Chartered Accountant

Robert Platzer
Chartered Accountant

Statement of the Management Board

Statement of the Management Board in compliance with section 82 (4) of the Austrian Stock Exchange Act

The Management Board declares that the consolidated financial statements of the Lenzing Group for the financial year from 1 January 2008 to 31 December 2008, 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, 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 existing and future risks on the business activities of the Lenzing Group.

Lenzing, 25 March 2009

The Management Board

Peter Untersperger — Christian Reisinger — Friedrich Weninger

Report of the Supervisory Board

on business year 2008

To the 65th general shareholders' meeting

Dear Shareholders

In the course of business year 2008, 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.

In the course of arranging a succession to the former chairman of the management board, Thomas Fahnemann, who had left the company at the end of the business year, the supervisory board appointed Peter Untersperger, the company's head of finance of many years, as the new chairman as of 1 January 2009. Friedrich Weninger, head of Lenzing's biggest business unit, Textile Fibers, was appointed as a member of the management board. The supervisory board thanks Thomas Fahnemann for his successful service to the company. The board is glad to have arrived at a solution of continuity in management with a successor from Lenzing's own management.

The financial statements and the management report of Lenzing AG for 31 December 2008 were audited by Eidos Deloitte Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH, Vienna, under the inclusion of bookkeeping. The auditor confirmed that the financial statements are in accordance with legal regulations and present fairly, in all material respects, the financial position of Lenzing AG as of 31 December 2008. The auditor further confirmed that the financial statements present fairly, in all material respects, the financial performance of the business year from 1 January 2008 to 31 December 2008 in accordance with the generally accepted accounting principles of Austria, and that the management report is consistent with the financial statements.

Eidos Deloitte Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH, Vienna, audited the consolidated financial statements for business year 2008 which were compiled in accordance with the International Financial Reporting Standards (IFRSs) 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 2008, and its financial performance and its cash flows for the financial year from 1 January 2008 to 31 December 2008 and that the management report is consistent with the consolidated financial statements.

The financial audit committee at its meeting of 19 March 2009 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 65th regular shareholders' meeting the reappointment of Eidos Deloitte Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH, Vienna, as auditors for the 2009 accounts.

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 2008 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 51,470,874.96. This corresponds to EUR 14.00 per no-par share. The remaining profit of EUR 20,874.96 will be carried forward.

The supervisory board follows the advice of the financial audit committee and will recommend to the 65th regular shareholders' meeting to appoint Eidos Deloitte Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH, Vienna, as auditors of the 2009 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, 25 March 2009

Hermann Bell
Chairman of the Supervisory Board

Long-term Comparison

		under IFRS						under US GAAP				
		2008	2007	2006	2005	2004	2003	2003	2002	2001	2000	1999*
Sales and result												
Sales **	EUR mill.	1,329.1	1,260.5	1,042.6	942.6	871.1	747.2	622.0	625.6	622.7	599.4	550.2
Sales outside of Austria **	%	87.8	85.9	85.6	85.0	83.7	83.6	79.2	78.9	79.3	80.5	81.9
Income from operations (EBIT)/ Operating result **	EUR mill.	130.3	162.3	107.8	81.8	104.3	89.7	74.0	78.4	64.6	69.8	9.2
Financial result **	EUR mill.	(15.6)	(11.3)	(8.5)	(2.5)	(0.8)	(5.1)	4.0	(6.2)	0.8	(0.5)	(5.3)
Income before taxes and minority interest **	EUR mill.	114.7	151.0	99.2	79.3	103.5	84.6	78.0	72.1	65.5	69.3	3.9
Income taxes **	EUR mill.	(36.6)	(32.8)	(10.4)	(18.6)	(26.0)	(20.8)	(17.0)	(23.0)	(19.9)	(23.0)	0.5
Net income	EUR mill.	78.7	117.6	88.4	60.7	77.5	63.7	60.5	49.2	45.6	46.7	4.3
Net income attributable to shareholders of Lenzing AG	EUR mill.	77.7	109.6	83.9	56.9	67.7	58.8	59.0	48.0	54.2	42.3	4.3
Cash flow												
Gross cash flow **	EUR mill.	157.8	203.6	146.9	120.4	128.5	115.9	104.0	101.9	86.5	37.1	60.9
Gross cash flow as percentage of sales **	%	11.9	16.2	14.1	12.8	14.7	15.5	16.8	16.3	13.9	6.2	11.1
Operating cash flow	EUR mill.	50.4	223.8	146.1	124.3	95.3	127.1	109.0	127.4	81.6	28.3	61.0
Free cash flow	EUR mill.	(96.3)	(36.4)	43.7	35.1	(36.2)	(11.3)	(16.0)	85.2	59.1	(9.4)	22.4
Capital expenditure (Intangible assets, property, plant and equipment) **	EUR mill.	158.6	136.7	104.1	82.4	60.9	139.2	131.0	42.0	66.7	41.0	39.0
Assets structure***												
Non-current assets	%	64.2	62.1	63.0	63.5	64.9	60.8	63.1	63.6	65.0	59.4	62.0
Current assets	%	35.8	37.9	37.0	36.5	35.1	39.2	36.9	36.4	35.0	40.6	38.0
Total assets	EUR mill.	1,415.8	1,308.6	1,061.7	1,010.1	946.1	897.1	809.0	688.7	685.9	690.5	687.7
Capital structure***												
Adjusted Equity[1]/ Equity	%	42.7	44.8	51.1	48.0	48.7	45.1	49.6	51.1	45.6	39.3	33.7
Post employment benefits	%	6.2	6.3	7.0	7.2	6.3	7.4	7.5	8.7	8.6	8.3	19.1
Liabilities (excl. post employment benefits)	%	51.1	48.9	41.9	44.8	45.0	47.5	42.9	40.2	45.8	52.4	47.2
Key data												
Return on sales (ROS)[2]	%	7.1	10.6	7.8	6.5	8.8	10.3	10.0	8.8	7.7	10.5	1.5
Return on capital employed (ROCE)[3]	%	10.0	17.5	11.9	9.0	12.2	14.3	13.7	13.1	11.7	15.5	2.0
Return on equity (ROE)	%	13.2	20.8	17.2	12.8	17.9	17.0	15.8	14.5	18.6	16.8	1.9
EBIT[4] **	EUR mill.	130.3	162.3	107.8	81.8	104.3	89.7	74.0	78.4	64.6	69.8	9.2
EBIT margin **	%	9.8	12.9	10.3	8.7	12.0	12.0	11.9	12.5	10.4	11.6	1.7
EBITDA[5] **	EUR mill.	200.8	229.3	169.3	141.6	160.4	134.8	116.0	121.4	102.0	107.6	61.3
EBITDA margin **	%	15.1	18.2	16.2	15.0	18.4	18.0	18.6	19.4	16.4	18.0	11.1
Earnings per share	EUR	21.1	29.8	22.8	15.5	18.4	16.0	16.2	13.1	14.8	11.5	1.2
Number of employees at year-end		5,945	6,043	5,044	4,860	4,845	4,523	3,058	3,365	3,282	3,216	3,166

The computation of several ratios does not follow the recommendation for the computation of financial performance indicators as per Expert Opinion KFS/BW3 published by the Austrian Chamber of Chartered Accountants. Mangement runs the business using these indicators in their present form.

under IFRS

1) = Equity incl. grants less prop. deferred taxes
2) = NOPAT (= Income from operations (EBIT) less proportional 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
4) = Income before taxes and financial result
5) = EBIT plus 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 proportional 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
4) = Income before taxes, minority interest and financial result
5) = EBIT plus 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 1999–2000.

Key Data

of the Lenzing Group according to IFRS

Business Results

EUR mill.	2006	2007	2008
Sales	1,042.6	1,260.5	1,329.1
EBITDA *	169.3	229.3	200.8
EBITDA margin in % *	16.2	18.2	15.1
EBIT *	107.8	162.3	130.3
EBIT margin in % *	10.3	12.9	9.8
EBT *	99.2	151.0	114.7
Net income attributable to shareholders of Lenzing AG	83.9	109.6	77.7

Financing Structure

EUR mill.	2006	2007	2008
Cash and cash equivalents	97.0	119.6	105.8
Inventories	123.9	174.3	209.9
Receivables	171.9	191.8	191.6
Liabilities	275.9	383.0	340.0
Net debt	145.9	219.6	365.4
Retained earnings	402.7	474.7	482.4
Net Gearing in %	26.9	37.4	60.4

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

EUR mill.	2006	2007	2008
Capital expenditure *			
Lenzing AG	39.9	75.6	73.8
Group total	104.1	136.7	158.6
Group depreciation and amortization *	65.7	70.5	74.2

Cash Flow

EUR mill.	2006	2007	2008
Gross cash flow *	146.9	203.6	157.8
Operating cash flow	146.1	223.8	50.4
Net increase (+)/decrease (-) in cash	13.0	25.5	(4.6)
Cash and cash equivalents	97.0	119.6	105.8

Capital Structure

EUR mill.	2006	2007	2008
Liabilities (w/o post employment benefits)	444.4	640.3	722.9
Post employment benefits	74.4	81.9	88.3
Adjusted equity	542.9	586.4	604.7
ROCE in %	11.9	17.5	10.0
ROE in %	17.2	20.8	13.2

Stock Exchange

EUR	2006	2007	2008
Common stock in mill.	26.7	26.7	26.7
Market capitalization in mill.	930.3	1,323.0	614.0
Share price as at 31 Dec.	253.1	360.0	167.0
Earnings per share	22.83	29.83	21.15

Production

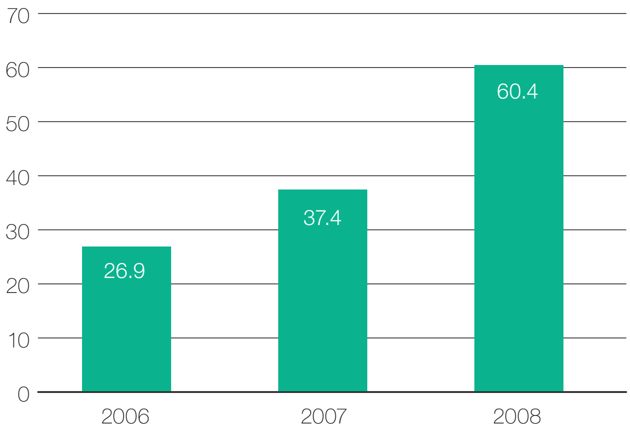
in 1,000 tons	2006	2007	2008
Fibers (total)	478.1	523.1	540.3
Paper	78.9	82.9	13.7
Plastics	20.0	27.2	31.4

*) From continuing operations

Key Data

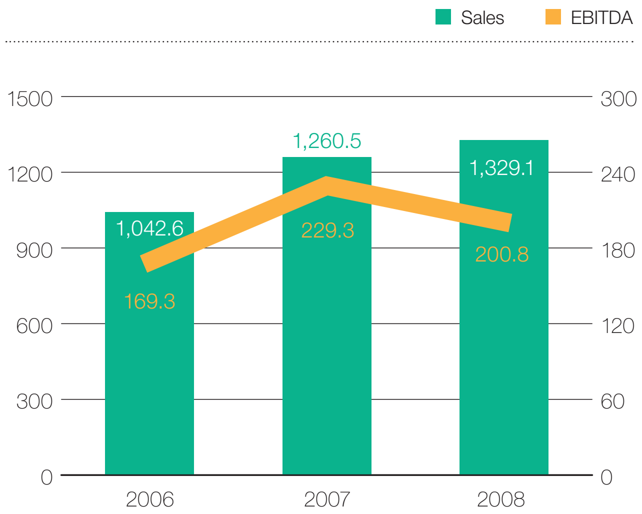
of the Lenzing Group according to IFRS

Net Gearing in %

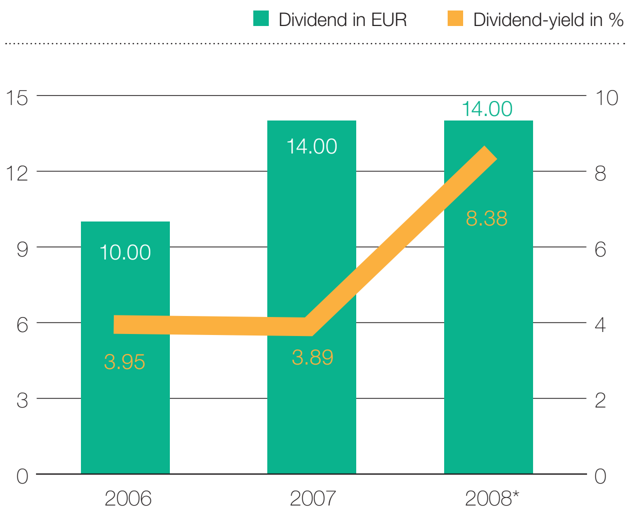


Sales compared to EBITDA

EUR mill.

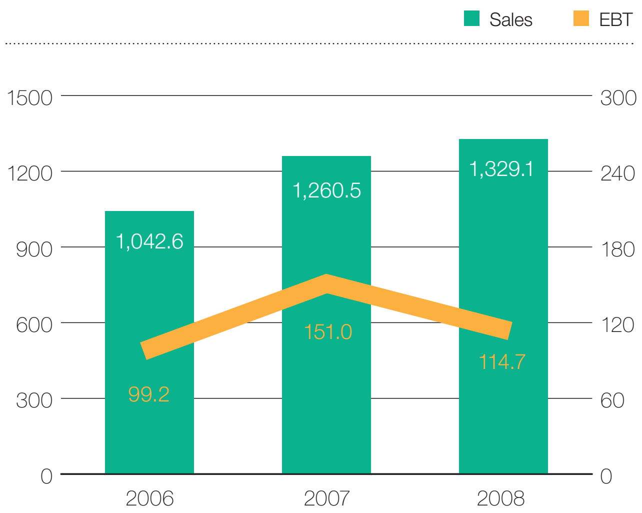


Dividend



Sales compared to EBT

EUR mill.



*) Proposal

Financial Calendar

	2009
Preliminary results	**Thursday, 5 March**
Final results	**Thursday, 26 March**
Results 1st quarter	**Friday, 8 May**
65th Shareholders‘ Meeting, Lenzing	**Thursday, 23 April**
Quotation ex dividend	**Tuesday, 28 April**
Dividend distribution	**Thursday, 30 April**
Half year results	**Monday, 24 August**
Results 3rd quarter	**Monday, 9 November**

LENZING
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