LETTER TO SHAREHOLDERS, FIRST HALF YEAR 2010 · Lenzing Group

02

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LENZING
LEADING FIBER INNOVATION

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Management Report

General Market Environment

The global economic recovery and the sustained strong development of the national economies of the emerging markets shaped the first half year of 2010. The positive development of the second half of 2009 continued, even if the rate of recovery in individual countries slowed down towards the middle of 2010. Moreover, excessively optimistic expectations had to be adjusted to the slower but actual development of individual industries and certain basis effects ceased to apply. Despite a slight cooling off the Chinese economy continues to be strong and may well continue to grow after having experienced a short period of weakening in the fourth quarter of 2009. According to current estimates very good growth rates can be expected for other Asian countries as well[1], such as India with an expected 9.4% and the member countries of ASEAN with an average of 6.4%. Other up-and-coming national economies, too, were able to leave the 2009 economic crisis behind, such as Brazil with an expected growth rate of about 7.1% for 2010. Even if the 2010 growth rates of the USA (first quarter: 3.7%, second quarter 2.4%[2] ; overall 2010 prediction: 3.3%[3]) and the euro zone (forecast 2010: 1.0%) are less dynamic than those of the emerging markets: Most of Lenzing's relevant markets in the western industrialized countries showed a positive development of demand, in particular if compared to the first half year of 2009.

The general economic upswing also caused a fast and substantial increase in the price of many raw materials and chemicals. Especially the prices for pulp and wood showed a clear upward trend.

The global fiber market in the first half of 2010 moved up distinctly, in terms of quantity as well as price. The cotton A index climbed steadily and in June 2010 reached a 15-year high of 93.04 US cents per pound. Polyester prices went up as well. The overall production capacity of the textile chain was well utilized, but towards the end of June the textile pipeline showed signs of filling up despite good sales. Therefore developments in the second half of the year might lose their momentum and quantity dynamics might level off after basis effects cease to apply.

Development of the Lenzing Group

As in the first quarter of 2010, the Lenzing Group made optimum use of the good global market environment and achieved an excellent result in the second quarter. The start-up of new fiber capacity in Indonesia, investment in debottlenecking in China and the expansion of Heiligenkreuz (Austria) were therefore undertaken at the right time and confirmed the company's anti-cyclical investment strategy as correct. Fiber production ran at full capacity at all sites and stock levels fell to a minimum. The performance of business segment Plastics Products improved considerably over that of 2009 and the performance of segment Engineering was stable, pointing up.

Consolidated sales in the first half of 2010 significantly climbed by 43.6%[4] to EUR 847.2 mill. from EUR 589.9 mill. in the 2009 reference period. This was the strongest rise in sales in the past years. It was enabled by higher fiber quantity, the price dynamics of global markets, as well as by the first-time full consolidation, from early May of 2010 on, of the pulp production site Biocel Paskov (Czech Republic), acquired in April 2010. The fact that the increase in cost of material and purchased services by 46.2% was higher than the increase in sales is explained by the unfavorable development of raw material prices which set in with the second quarter. The increase in other operating expenses was above all a result of maintenance measures which had been postponed due to the difficult situation in first half year of 2009.

[1] Source: International Monetary Fund [2] Source: US Department of Commerce, preliminary figures [3] Source: International Monetary Fund figures

Best half year result in the history of the company

The operative result developed even more dynamically than sales. Half year EBIT increased sevenfold from EUR 15.4 mill. to EUR 108.6 mill. Due to the higher cost of financing investment EBT increased thirteen-fold from EUR 8.0 mill. to EUR 105.0 mill. Profit for the period, after deduction of income taxes of EUR 24.6 mill. (2009: EUR 2.1 mill.), came to EUR 80.4 mill. (2009: EUR 5.9 mill.). The profit of the first half of 2010 already now exceeds that of the total annual profits of 2008 and 2009 individually. The first half year of 2010 was therefore the best half year in the history of the company. Even taking into consideration that the crisis triggered by the bankruptcy of Lehman Brothers overshadowed the first half year of 2009, the first half of 2010 became the best half year in the history of the company in absolute terms.

The EBIT margin improved from 2.6% (first half year 2009) to 12.8%[5] and the EBITDA margin from 9.0% to 17.9%[5].

Operating cash flow increased from EUR 97.1 mill. to EUR 125.7 mill., above all as a result of higher production quantity at improved margins. Operating cash flow was higher than cash outflow from investment of EUR 116.7 mill. Cash and cash equivalents at the end of the reporting period on 30 June 2010 had increased to EUR 104.4 mill. (30 June 2009: EUR 76.7 mill.).

Sustained solid balance sheet structure

The solid balance sheet structure was sustained despite high investment and the considerable increase of business volume. It was kept stable at an adjusted equity ratio[6] of 42.1% of the balance sheet total (year end 2009: 43.5%). Net debt rose to EUR 391.7 mill. (year end 2009: EUR 315.7 mill.) due to investment activity. Net gearing was at 54.3% (2009: 50.2%), an acceptable level in terms of financial engineering. Equity shown in the half year balance sheet of 2010 increased to EUR 697.5 mill. (year end 2009: EUR 606.1 mill.).

Intensive investment activity is reflected in the increase of property plant and equipment to EUR 977.4 mill. at mid year (year end 2009: EUR 841.7 mill.). Investment above all concerned the acquisition of the Czech pulp factory Biocel Paskov, the completion of production line four at PT. South Pacific Viscose (Indonesia) and the subsequent debottlenecking program there, as well as the expansion of the sites in Lenzing (Austria) and Grimsby (Great Britain). The expansion of sales led to an increase in current assets to EUR 573.5 mill. (2009: EUR 470.1 mill.) mainly as a result of higher trade receivables due to higher sales.

The Lenzing Group employed a staff of 6,395 at the reporting date 30 June 2010 (31 December 2009: 6,021). The increase was due to the acquisition of the Biocel Paskov pulp factory.

[4] excluding acquisition effects: 38.8% [5] unaffected by acquisition effects [6] Incl. government grants less deferred prop. taxes

Management Report

Segment Reporting

Segment Fibers

Sales of segment Fibers substantially grew by 46.3% from EUR 506.6 mill. (first half year 2009) to EUR 741.1 mill. due to good demand, higher production capacity along with full utilization at all sites and significantly higher prices. Accordingly, the segment result improved from EUR 13.0 mill. (first half year 2009) to EUR 102.9 mill. despite raw material prices beginning to rise considerably in the second quarter of 2010.

Business unit Textile Fibers as well as Nonwoven Fibers recorded very good order bookings from virtually all regions of the globe, but in particular from the emerging markets. Strong demand from western industrialized nations for Lenzing fiber end products was noted as well. Sales and Marketing are currently very busy in all markets.

The startup of the fourth production line at the subsidiary PT. South Pacific Viscose (SPV) was the central event of the first half year 2010. The additional production capacity of 60,000 tons per year (current total capacity 220,000 tons per year) has been well absorbed by the market so far and has led to a corresponding improvement in sales and results.

Business unit Textile Fibers

Demand for standard as well as special fibers in business unit Textile Fibers continued to be strong throughout the first half of 2010. Special fibers Lenzing Modal® and TENCEL® met with above-average success throughout the reporting period whereas the Chinese market for standard fibers was slightly weaker due to the buildup of stock in the textile chain in the course of the second quarter.

Business unit Nonwoven Fibers

The business development of business unit Nonwoven Fibers, too, was characterized by strong demand at good price development. Sold quantity grew by 18% over the reference period of 2009. Moreover, price adaptations were implemented. In Nonwovens, too, Chinese demand cooled off at mid year, whereas the market development of western industrial nations continued to be positive throughout the second quarter.

Outlook Textile Fibers and Nonwoven Fibers

Demand for special textile fibers, such as Lenzing Modal® and TENCEL®, continues to be strong. Apart from seasonal fluctuations as a consequence of the summer months, the dynamic development of this market segment is on the whole expected to continue into the second half of the year.

After signs of overheating in the first half year of 2010 the market for standard textile fibers tended to cool off, above all in China, the biggest fiber market. This development caused prices to decline while raw material prices remained very high. Weakening margins in Asian markets will be a temporary consequence at the least.

Nonwovens expects continuing strong demand even if, similarly to Textile Fibers, temporarily reduced margins will have to be expected for the second half of the year. Numerous innovations, in particular implementations of TENCEL® fibers in nonwovens, will enable Lenzing to further expands its strong market position.

Business unit Pulp

The global dissolving pulp supply situation remained tight throughout the first half of the year. Due to strong demand spot market pulp prices climbed to between USD 1,300 and USD 1,600 per ton, the highest level in more than three years.

Lenzing succeeded in supplying its non-integrated sites by means of long-term contracts and timely spot market purchases. Higher pulp prices, however, already burdened fiber results, in particular in the second quarter. The Lenzing site was supplied at more stable raw material prices which made for the site's excellent result. The site is currently in the process of expanding its pulp production to 260,000 tons per year in order to maintain its full self-sufficiency despite the expansion of fiber production.

As already reported on the first quarter, Lenzing in April 2010 acquired a 75% share of the Czech pulp producer Biocel Paskov a.s. Anti-trust authorities approved the acquisition in May 2010. Biocel has an annual production capacity for paper pulp of around 280,000 tons. Over the next three years Lenzing intends to invest at least EUR 50 mill. into the expansion of the site's capacity, increased energy efficiency and recovery systems. Biocel Paskov will offer the potential of producing paper pulp as well as dissolving in the medium and the long term. This will raise the Group's level of integrated fiber production to over 50%. In the long term the Lenzing Group aims at semi-integrating about two thirds of its fiber production.

The development of Biocel in May and June 2010 was according to expectations and all in all gratifying.

Outlook Pulp

It is to be expected that the prices for paper pulp and dissolving pulp will remain at their current high levels throughout the third quarter. Prices for dissolving pulp are expected to weaken in the further course of the year as a consequence of fiber demand going back to normal. Wood supply is available for the two pulp factories Lenzing and Paskov, even if the market is characterized by increasing tightness due to poor harvests and rising demand for wood as a source of biomass.

Business unit Energy

Fiber production in the first half of the year was supplied with energy without problems. The fuel mix was further improved towards the increased utilization of biomass. Average natural gas prices, a decisive cost factor for the non-integrated sites, were slightly below those of the 2009 reference period.

Outlook Energy

The energy production plant of PT. South Pacific Viscose was successfully started up in July. Comprehensive plans for the recovery boiler at Biocel Paskov are being made and requests for bids are being drafted. Energy prices in the second half of the year are expected to remain stable.

Management Report

Segment Plastics Products

The economic recovery in Europe and the USA benefited segment Plastics Products as well and enabled significantly improved sales and results. Segment sales grew by 32.8% to EUR 95.9 mill. from EUR 72.2 mill. in the first half of 2009. Improved capacity utilization and the cost efficiency measures implemented in 2009 resulted in a significantly improved result of EUR 3.2 mill. over the previous balanced result.

Business unit Plastics

Demand for thermoplastics, in particular from the construction industry, clearly improved in the first half of 2010, compared with the weak demand in the first half of 2009. Higher raw material prices, however, could only be partly passed on to the market. PTFE [1] sales remained unsatisfactory.

Business unit Filaments

The economic environment significantly supported the positive development of business unit Filaments. The substantial increase in German industrial exports was a contributing factor. A significant increase in sales was achieved in particular for the special fiber Dolan® due to improved demand for awnings. Stronger demand was also noted for filaments, in particular for abrasives.

Ambitious quality goals were realized in the production of carbon precursor and its commercial utilization is being intensively prepared. The demand for carbon fibers has revived.

Capacity utilization at all sites was significantly increased and the business result was gratifyingly positive.

Outlook Plastics Products

Sales and results in the second half of 2010 are expected to be gratifying and above those of 2009. The high rate of production capacity utilization for thermoplastics, but also Dolan® and filaments, is expected to continue into the coming months. Carbon precursor is expected to generate corresponding sales and positive results. All in all, segment Plastics Products is expected to provide a clearly positive annual result as a substantial improvement over that of 2009.

In the course of strategic portfolio assessments, sales negotiations were opened for parts of business unit Filaments after the balance sheet date 30 June 2010. As the outcome of negotiations is uncertain they may result in no agreement.

Segment Engineering

Business unit Engineering

The development of business unit Engineering in the first half of the year was characterized by the continued high investment activity of the Lenzing Group and good order bookings from external customers. Realized total sales of EUR 38.4 mill. in the first half of 2010 essentially remained at the level of the 2009 reference period with EUR 38.8 mill. Sales to external customers contributed EUR 16.5 mill. (2009: EUR 17.3 mill.). The segment result declined to EUR 2.5 mill. (first half year 2009: EUR 3.5 mill.).

Outlook Engineering

On the basis of good order bookings the development of Engineering in the second half of the year is expected to be essentially stable and good.

[*)] PTFE: polytetrafluoroethylene

Risk Report

The general risk situation has not worsened for Lenzing in the first half year of 2010. Important projects, such as the capacity expansion in Indonesia, were completed and new capacity expansion projects (in China and Heiligenkreuz, Austria) have been started. The acquisition of the pulp factory Biocel Paskov was a strategic investment in backwards integration which will sustainably reduce Lenzing's purchasing risk.

The continued strong demand of the first half year and the very low rate of loss of receivables show that Lenzing's customer base is sustainable and has proven itself to be stable throughout the financial crisis.

The coming months may hold increased risk of rising raw material prices as well as increased exchange rate risk due to the volatility of the US dollar versus the euro, which could lead to a weaker results situation. Moreover, industrial action, inclement weather and other factors may increase the risk of trade routes being adversely affected, which in turn could negatively affect production capacity utilization.

The standard risk categories, such as natural and environmental disasters as well as fire, continue to describe a high potential of risk of loss to Lenzing.

Outlook Lenzing Group

In the second half of the year core business fibers is expected to experience weakening fiber demand in view of recent first signs of overheating. The strong momentum of the first half of the year will lose some of its force in the second half of the year. New cellulose fiber production capacity in China will begin to supply the market in 2010 and 2011 and may temporarily reinforce this trend. Therefore, and due to continued high raw material prices (pulp and wood), margins are expected to weaken. Lenzing's special fibers will not be affected by this development to the same degree. The raw material price situation, in particular for dissolving pulp, is foreseen to calm down in the fourth quarter. The business development of segments Plastics Products and Engineering should remain stable.

After the exceptionally strong second quarter the results situation of the Lenzing Group is on the whole expected to weaken in the next quarters, a common phenomenon observable after periods of steep growth. The upward trend of cellulose fibers, however, will in the medium and long term remain unaffected as the positive fundamentals for the future growth of the cellulose fiber industry are given: Cotton prices are expected to remain high throughout the 2010/11 season due to short supply, and no significant reduction of polyester fiber prices is expected in view of the current crude oil prices between USD 70 and USD 85 per barrel. Pending a sustained recovery of the global economy, the Lenzing Group expects a satisfactory second half of the year, however, with a result below that of the first half.

Our Letter to Shareholders for the third quarter will inform you on further developments in November.

Lenzing, 18 August 2010

The Management Board

Interim Consolidated Financial Statements

Interim Consolidated Financial Statements

Income Statement

	Note	4-6/2010 EUR mill.	4-6/2009 EUR mill.	1-6/2010 EUR mill.	1-6/2009 EUR mill.
Sales	(6)	469.7	305.9	847.2	589.9
Change in inventories of finished goods and work in progress	(7)	2.4	(12.5)	(0.6)	(25.0)
Work performed by the Group and capitalized		7.7	8.2	14.8	16.9
Other operating income		9.8	5.1	16.9	13.5
Cost of material and purchased services	(8)	(283.8)	(166.7)	(488.9)	(334.3)
Personnel expenses	(9)	(66.9)	(61.2)	(134.1)	(124.8)
Amortization of intangible assets and depreciation of property, plant and equipment	(10)	(23.5)	(19.8)	(44.8)	(39.5)
Other operating expenses		(56.6)	(41.7)	(101.9)	(81.3)
Income from operations (EBIT)		**58.8**	**17.3**	**108.6**	**15.4**
Income from investments in associates		0.8	0.1	1.3	(1.5)
Other investment income		1.4	(0.9)	3.1	0.1
Finance costs		(4.0)	(2.0)	(8.0)	(6.0)
Income before tax (EBT)		**57.0**	**14.5**	**105.0**	**8.0**
Income tax		(13.4)	(3.2)	(24.6)	(2.1)
Profit for the period		**43.6**	**11.3**	**80.4**	**5.9**
Attributable to shareholders of Lenzing AG		39.0	10.5	72.8	6.9
Attributable to non-controlling interests		4.6	0.8	7.6	(1.0)
		EUR	EUR	EUR	EUR
Earnings per share		**10.60**	**2.85**	**19.82**	**1.87**

Statement of Comprehensive Income

	4-6/2010	4-6/2009	1-6/2010	1-6/2009
	EUR mill.	EUR mill.	EUR mill.	EUR mill.
Profit for the period	**43.6**	**11.3**	**80.4**	**5.9**
Other comprehensive income:				
Exchange differences on translating foreign operations	29.4	(9.0)	43.9	0.7
Available-for-sale financial assets	0.0	0.1	0.0	0.1
Cash flow hedges	(5.0)	9.3	(10.2)	7.2
Share of other comprehensive income of associates	0.0	0.1	0.0	0.1
Income tax relating to components of other comprehensive income	1.5	(1.5)	2.7	(0.9)
Other comprehensive income for the reporting period, net of tax	**25.9**	**(1.0)**	**36.4**	**7.2**
Total comprehensive income for the reporting period	**69.5**	**10.3**	**116.8**	**13.1**
Total comprehensive income attributable to:				
Shareholders of Lenzing AG	61.9	10.4	104.9	14.2
Non-controlling interests	7.6	(0.1)	11.9	(1.1)
	69.5	**10.3**	**116.8**	**13.1**

Interim Consolidated Financial Statements

Statement of Changes in Equity

	Common stock	Capital reserves	
	EUR mill.	EUR mill.	
Balance as at 1/1/2009	**26.7**	**63.6**	
Exchange differences on translation of financial statements presented in foreign currencies			
Other income and expenses recognized directly in equity			
Net income/(loss) recognized directly in equity	**0.0**	**0.0**	
Net income			
Total recognized income and expense for the period	**0.0**	**0.0**	
Contribution to capital			
Dividends			
Balance as at 30/06/209	**26.7**	**63.6**	
Balance as at 1/1/2010	**26.7**	**63.6**	
Exchange differences on translation of financial statements presented in foreign currencies			
Other income and expenses recognized directly in equity			
Net income / (loss) recognized directly in equity	**0.0**	**0.0**	
Net income			
Total recognized income and expense for the period	**0.0**	**0.0**	
Change of consolidated group			
Contribution to capital			
Dividends			
Balance as at 30/06/2010	**26.7**	**63.6**	

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Share of Lenzing AG shareholders			Non-controlling interests	Equity Total
Currency translation reserves	Retained earnings and other reserves	Total		
EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.
(15.6)	482.4	557.1	22.6	579.7
0.8		0.8	(0.1)	0.7
	6.5	6.5	0.0	6.5
0.8	6.5	7.3	(0.1)	7.2
	6.9	6.9	(1.0)	5.9
0.8	13.4	14.2	(1.1)	13.1
		0.0	2.5	2.5
	(51.4)	(51.4)	(0.1)	(51.5)
(14.8)	444.4	519.9	23.9	543.8
(18.7)	504.3	575.9	30.2	606.1
39.5		39.5	4.4	43.9
	(7.4)	(7.4)	(0.1)	(7.5)
39.5	(7.4)	32.1	4.3	36.4
	72.8	72.8	7.6	80.4
39.5	65.4	104.9	11.9	116.8
			24.3	24.3
		0.0	1.7	1.7
	(51.4)	(51.4)	0.0	(51.4)
20.8	518.3	629.4	68.1	697.5

Interim Consolidated Financial Statements

Balance Sheet

Assets		30/06/2010	31/12/2009
	Note	EUR mill.	EUR mill.
Goodwill	(13)	90.7	68.4
Other intangible assets	(13)	20.4	19.6
Property, plant and equipment	(13)	977.4	841.7
Investments in associates		24.9	23.2
Other financial assets		19.0	19.0
Deferred taxes		3.6	3.0
Other non-current assets		2.3	2.2
Non-current assets		**1,138.3**	**977.1**
Inventories	(14)	215.6	175.6
Trade receivables		191.4	118.5
Current taxes		16.1	11.6
Other receivables and assets		46.0	39.1
Investments		0.0	19.9
Cash and cash equivalents		104.4	105.4
Current assets		**573.5**	**470.1**
		1,711.8	**1,447.2**

Equity and Liabilities

	Note	30/06/2010	31/12/2009
		EUR mill.	EUR mill.
Equity attributable to shareholders of Lenzing AG		629.4	575.9
Non controlling interests		68.1	30.2
Equity	**(15)**	**697.5**	**606.1**
Government grants		**29.6**	**29.3**
Financial liabilities	(16)	430.1	400.3
Trade payables		1.6	5.2
Deferred taxes		30.2	26.6
Provisions		99.0	96.5
Other liabilities		1.6	1.6
Non-current liabilities		**562.5**	**530.2**
Financial liabilities	(16)	66.0	40.7
Trade payables		118.2	90.4
Provisions for current income tax		35.0	23.8
Other provisions	(17)	136.1	95.6
Other liabilities	(17)	66.9	31.1
Current liabilities		**422.2**	**281.6**
		1,711.8	**1,447.2**

Interim Consolidated Financial Statements

Cash Flow Statement

	Note	1-6/2010 EUR mill.	1-6/2009 EUR mill.
Gross cash flow		122.3	41.6
Change in working capital		3.4	55.5
Operating cash flow	**(19)**	**125.7**	**97.1**
- Acquisition of non-current assets	(19)	(117.2)	(83.5)
- Acquisition of securities held as current assets		0.0	(8.0)
+ Proceeds from the disposal / repayment of non-current assets		0.5	5.7
Net cash used in investing activities		**(116.7)**	**(85.8)**
+ Payments of other shareholders		1.7	2.5
- Dividends paid to shareholders	(20)	(51.5)	(51.5)
+ Receipts from finacing activities		14.3	23.6
- Redemption of loans		(3.0)	(15.2)
Net cash used in (-) / provided by (+) financing activities		**(38.5)**	**(40.6)**
Change in cash and cash equivalents		**(29.5)**	**(29.3)**
Cash and cash equivalents at the beginning of the year		125.3	105.8
Currency translation adjustment relating to cash and cash equivalents		8.6	0.2
Cash and cash equivalents at the end of the reporting period	**(19)**	**104.4**	**76.7**

Key Data

		30/06/2010	31/12/2009
Adjusted equity [1]	EUR mill.	720.8	629.2
Equity	%	42.1	43.5
Net debt	EUR mill.	391.7	315.7
Net gearing	%	54.3	50.2
Number of employees at period end		6,395	6,021
		1-6/2010	1-6/2009
EBITDA	EUR mill.	151.6	53.2
EBITDA margin	%	17.9	9.0
EBIT margin	%	12.8	2.6
Capital expenditure for intangibles, property, plant and equipment	EUR mill.	66.7	78.4

[1] Equity including government grants less proportionate deferred taxes

Selected Explanatory Notes

Note 1. Presentation of the interim financial report

These condensed interim consolidated financial statements of the Lenzing Group for the period from 1 January to 30 June 2010 have been prepared in accordance with IAS 34 ("Interim Financial Reporting"). The accounting policies and valuation methods employed are in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In accordance with IAS 34 the condensed interim consolidated financial statements do not provide all of the information mandatory for the annual financial statements and therefore should be read along with the annual financial statements of the Lenzing Group for the year ended 31 December 2009.

The figures provided in the interim financial statements and in these notes are presented in million euros (EUR mill.) unless specified otherwise.

Note 2. Accounting policies

The following new or revised IFRSs and interpretations of IFRIC were adopted by the European Union and are to be applied for the first time to business year 2010:

Effective for business years beginning on or after 29 March 2009:

- IFRIC 12 (new) Service Concession Arrangements (latest date of adoption according to IAS regulation EU)

Effective for business years beginning on or after 30 June 2009:

- Amendments to IFRS 5 and IFRS 1 as a result of the annual improvement project 2008
- IFRIC 16 (new) Hedges of a Net Investment in a Foreign Operation (latest date of adoption according to IAS regulation EU)

Effective for business years beginning on or after 1 July 2009:

- Revision of IFRS 1 First-time adoption of International Financial Reporting Standards (Revision 2008)
- Amendment to IAS 27 Consolidated and Separate Financial Statements according to IFRS (Revision 2008)
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement in relation to exposures qualifying for hedge accounting.
- Amendments to a number of IFRSs as a result of the annual improvement project 2009 (part)
- IFRIC 17 Distributions of Non-Cash Assets to Owners
- Review of IFRS 3 Business Combinations (to be applied to business combinations achieved during reference periods beginning on or after 1. July 2009) and IAS 27 Consolidated and separate Financial Statements according to IFRS, concerning the representation of acquisitions and minority interests

Interim Consolidated Financial Statements

Selected Explanatory Notes

Effective for business years beginning on or after 1 January 2010:

- Amendments to a number of IFRSs as a result of the annual improvement project 2009 (part)
- Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards – Additional exceptions for first-time adopters
- Amendments to IFRS 2 Share-based payments concerning group cash-settled share-based payment transactions

Amendments to IFRS 3 which in particular pertain to the valuation of companies and minority interests and the consequential amendments to IAS 27 were applied to company acquisitions during the reporting period.

The other new or amended standards to be adopted from 1 January on, cause no changes to the interim financial report of the Lenzing Group. There have been no changes since 31 December 2009 to either the other accounting and valuation policies applied or to the methods of calculation and presentation.

The following exchange rates and reporting dates were used to translate the assets and liabilities of subsidiaries from their functional currency to the reporting currency:

Unit	Currency		Closing Rate	
			30/06/2010	31/12/2009
1	EUR/USD	US Dollar	1,2266	1,4410
1	EUR/GBP	GB Pound	0,8169	0,8880
1	EUR/CNY	Renminbi Yuan	8,3120	9,8367
1	EUR/HKD	Hong Kong Dollar	9,5546	11,1749
1	EUR/CZK	CZ Koruna	25,6710	26,4680
1	EUR/INR	Indian Rupee	56,9250	66,8555

Note 3. Use of estimates

There were no changes to estimates of amounts which had been presented in previous (interim) reporting periods during the current reporting period which had any material effect on the current interim reporting period.

Note 4. Scope of consolidation

With effect of 7 May 2010 the Lenzing Group acquired a 75% share of the Czech pulp producer Biocel Paskov a.s., which in turn owns 100% of Reality Paskov s.r.o. and 50% of Wood Paskov s.r.o. (accounted for at equity). The seller is the Austrian Heinzel Holding GmbH which still holds a 25% share and will take care of the distribution of paper pulp. Biocel Paskov provides Lenzing with the option to produce paper pulp as well as dissolving pulp in the medium and long term. The acquisition is part of the company's hedge strategy which will protect Lenzing from the impact of highly volatile pulp prices.

Assets and liabilities at the time of acquisition (100%)	EUR mill.
Assets	
Intangible assets and property, plant and equipment	73.1
Financial assets	0.0
Non-current assets	**73.1**
Inventories	10.6
Receivables and other assets	26.7
Cash and cash equivalents	21.6
Current assets	**58.9**
	132.0
Liabilities	
Bank loans and other loans	19.2
Deferred taxes	3.5
Provisions	1.2
Non-current liabilities	**23.9**
Bank loans and other loans	2.6
Provisions	0.7
Liabilities	18.4
Current liabilities	**21.7**
	45.6

The receivables (mainly trade receivables) acquired as part of this transaction possess an attributable fair value of EUR 26.7 mill. and a gross contract value of EUR 30.7 mill.

The share of other shareholders of Biocel Paskov a.s. (25%) was recognized according to the full goodwill method at the time of acquisition at their attributable fair value. This value was calculated on the basis of the company's total purchase price. The recoverability of the goodwill was reviewed by impairment testing.

The resultant goodwill reflects the expected strategic advantages gained from the long-term expansion of the backwards integration of the Lenzing Group and the increased independence from volatile pulp markets.

The profit for the period includes EUR 2.7 mill. generated additionally by the Biocel Group. Sales of the reporting period include EUR 28.5 mill. generated by the Biocel Group.

Had merger taken place on 1 January 2010, it would have led to consolidated sales increased by EUR 49.5 mill. and a profit for the period increased by EUR 5.5 mill. The management based its calculation of these supposed values for consolidated sales and profit for the period for the time between the beginning of the year and the acquisition on the following principle: Depreciation of acquired property, plant and equipment was based on their attributable fair value calculated at the time of the initial accounting of the merger and not on the basis of their book value as presented in the final accounts before the purchase.

The Lenzing Group has been acquiring several tranches of Lenzing Modi Fibers India Private Limited (LMI), a joint venture with the Indian Modi Group since April 2010. The Lenzing group currently holds a 99.9% share. LMI is not yet operational and its effect on the consolidated financial result is non-essential.

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The number of companies included in the scope of consolidation has therefore changed as follows:

	Full Consolidation	Equity Consolidation
As at 1 January	**39**	**6**
First-time consolidation	3	1
As at 30 June	**42**	**7**

Note 5. Segment reporting

Segment reporting in the Lenzing Group is based on business segments. The internal reports to management present the following segments:

Segment Fibers:

Segment Fibers covers the business units Textile Fibers, Nonwoven Fibers, Pulp, and Energy as well as co-products and wood trading. This segment constitutes the core business of the Lenzing Group.

Segment Plastics Products:

Segment Plastics Products manufactures special plastics products for downstream manufacturers. It covers the business units Plastics and Filaments.

Segment Engineering:

Segment Engineering (=business unit Engineering) is the Group's technical competence center and consists of three sectors:

- Engineering and contracting
- Mechanical construction an industrial services
- Automation and mechatronics

Segment Other:

Segment Other essentially covers the activities of the training center BZL-Bildungszentrum Lenzing GmbH.

Segment sales	1-6/2010			1-6/2009*		
	External sales	Internal sales	Total sales	External sales	Internal sales	Total sales
	EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.
Fibers	734.8	6.2	741.0	500.4	6.2	506.6
Plastics Products	95.2	0.7	95.9	71.7	0.6	72.2
Engineering	16.5	21.9	38.4	17.3	21.4	38.8
Other	0.7	0.0	0.7	0.5	0.0	0.5
Consolidation	0.0	(28.8)	(28.8)	0.0	(28.2)	(28.2)
Group Total	**847.2**	**0.0**	**847.2**	**589.9**	**0.0**	**589.9**

Segment results	1-6/2010	1-6/2009*
	EUR mill.	EUR mill.
Fibers	102.9	13.0
Plastics Products	3.2	0.0
Engineering	2.5	3.5
Other	0.3	0.1
Consolidation	(0.3)	(1.2)
Group EBIT	**108.6**	**15.4**
Income from investments in associates	1.3	(1.5)
Other investment income	3.1	0.1
Finance costs	(8.0)	(6.0)
Income before tax (EBT)	**105.0**	**8.0**

Segment assets	30/06/2010	31/12/2009
	EUR mill.	EUR mill.
Fibers	1,338.0	1,127.8
Plastics Products	171.7	159.5
Engineering	39.4	31.1
Other	3.4	3.7
Consolidation	(32.3)	(35.0)
Segment assets	**1,520.2**	**1,287.1**
Non-allocated assets	191.6	160.1
Total assets	**1,711.8**	**1,447.2**

*) The central divisions of the Lenzing Group work mainly for segment Fibers. They were therefore allocated to this segment. The figures for 1-6/2009 were adjusted accordingly.

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Note 6. Sales

The increase of sales by 43.6% to EUR 847.2 mill. over the reference period of 2009 is a result of price increases in Asia and Europe and increased production at all sites, in particular the startup of production line four in Indonesia. Sales by segment are presented in Note 5.

Note 7. Change in inventories of finished goods and work in progress

The change in inventories of finished goods and work in progress in the first six months of 2010 reflects the substantial reduction of inventory in 2009. No significant write-offs of inventories to their net realizable value were recognized in 2010 either.

Note 8. Cost of material and purchased services

The increase reflects the rise in sales and the above-average development of pulp prices for sites producing TENCEL® fibers.

Note 9. Personnel expenses

Personnel expenses of EUR 134.1 mill. (reference period 2009: EUR 124.8 mill.) include EUR 4.9 mill. (reference period 2009: EUR: 5.5 mill.) of expenses for severance payments and pensions.

Note 10. Amortization of intangible assets and depreciation of property, plant and equipment

Amortization of intangible assets and depreciation of property, plant and equipment of EUR 44.8. mill. (reference period 2009: EUR 39.5 mill.) exclusively comprises systematic amortization/depreciation.

The increase over the first six months of 2009 reflects the startup of production line four at SPV and the acquisition of Biocel Group.

Note 11. Cost of finance

Cost of finance includes interest and interest-like expenses of EUR 8.8 mill. (reference period 2009: EUR 8.6 mill.) and foreign exchange gains from the revaluation of financial liabilities of EUR 0.7 mill. (reference period 2009: EUR 2.6 mill.).

Note 12. Income tax

Income tax is accrued per taxable entity on the basis of estimated average tax rates. Deferred tax assets arising from unused tax losses carried forward are recognized only to the extent that the amount carried forward is likely to be used up within a conceivable time frame.

Note 13. Intangible assets and property, plant and equipment

The acquisition of the Biocel Group and currency differentials (EUR 11.4 mill.) raised goodwill to EUR 90.7 mill.

During the reporting period the Lenzing Group invested EUR 66.7 mill. (reference period 2009: EUR 78.4 mill.) in intangible assets and property, plant and equipment. The investments mainly pertained to the capacity expansion in Indonesia and the soda boiler 2K11 in Lenzing.

Commitments from open purchase orders for property, plant and equipment as at 30 June 2010 came to EUR 58.7 mill. (31 December 2009: EUR 36.7 mill.).

Note 14. Inventories

The rise in inventories by EUR 40.0 mill. concerns primarily raw material stock of EUR 33.1 mill. and stock in semi-finished and finished products of EUR 6.8 mill.

Note 15. Equity

The general shareholders' meeting on 23 April 2009 authorized the management board to buy company shares of up to a total of 5% of the share capital in accordance with section 65, paragraph 1 Z 8 of the Austrian Joint Stock Companies Act (AktG). The minimum and maximum share price for redemption were defined as EUR 90 and EUR 300, respectively. The authorization was not exercised during the reporting period.

The increase in the share of non-controlling interests is a result of the acquisition of Biocel Paskov a.s. Other essential non-controlling interests exist in PT. South Pacific Viscose, European Precursor GmbH and Lenzing (Nanjing) Fibers Co., Ltd.

Note 16. Financial liabilities

Financial liabilities (short-term and long-term) grew to EUR 496.1 mill. (31 December 2009: EUR 441. mill.). The rise reflects the increased need for capital for financing acquisitions and investments in the first six months of 2010 and the increase of working capital.

Note 17. Other provisions and liabilities (short-term)

The increase in other short-term provisions is essentially due to services not yet invoiced and accruals in segment Fibers and the valuation of open forward contracts and options.

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Note 18. Contingent liabilities and financial guarantee contracts

Contingent liabilities and commitments of the Lenzing Group developed as follows:

	30/06/2010	31/12/2009
	EUR mill.	EUR mill.
Assumptions of liability for associated companies	4.4	5.6

Moreover, the Group gave bank guarantees to the amount of EUR 4.0 mill. (31 December 2009: EUR 1.4 mill.) for liability escrow paid. It is considered unlikely that the group will be held liable as a result of these commitments.

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 19. Cash flow statement

Gross cash flow compared to the reference period increased to EUR 122.3 mill. mainly due to the good profit situation. Cash flow from operations remained at EUR 125.7 mill. as a result of only minor changes to working capital.

Cash flow from investing activities in non-current assets mainly concerns the acquisition of Biocel and investment in intangible assets as well as property, plant and equipment.

Cash and cash equivalents include cash in hand and cash at banks, call money and short-term time deposits with banks. As at 31 December 2009 securities qualifying as cash equivalents, that is securities with a maturity of less than three months from the time of acquisition, were held. These were sold during the reporting period.

Note 20. Dividends paid

The shareholders of the parent company received the following dividend payments during the reporting period:

	Total EUR mill.	Number of shares	Dividend per share EUR
Dividend for 2009 paid in 2010	51.4	3,675,000	14.00
Dividend for 2008 paid in 2009	51.4	3,675,000	14.00

In the first half year subsidiaries paid EUR 0.1 mill. (first half year 2009: EUR 0.1 mill) to non-controlling interests.

Note 21. Related party transactions

The group of related parties (companies and persons) was extended over the reporting period due to the acquisition of Bicoel Paskov a.s. by Wood Paskov s.r.o.

Scope and amount of essential business transactions as well as outstanding balances with associated companies are as follows:

	1-6/2010	1-6/2009
	EUR mill.	EUR mill.
Sales	33.6	19.7
Other operating income	0.5	0.4
Cost of material and purchased services	23.8	7.1
	30/06/2010	31/12/2009
Trade receivables incl. amounts due under construction contracts	8.4	15.1
Liabilities	8.5	4.2

Note 22. Derivative financial instruments

Instruments for hedging exchange rate risk

In order to hedge currency exchange rate risk, the Lenzing Group employs foreign currency forward contracts and options which are measured at market value.

The market value of the instruments employed as at the balance sheet dates is as follows:

Fair Value Hedges

Type of derivative financial instrument	Gain (+) / Loss (-)	
	30/06/2010	31/12/2009
	EUR mill.	EUR mill.
Foreign currency forward contracts	(8.3)	1.2

Cashflow Hedges

Type of derivative financial instrument	Gain (+) / Loss (-)	
	30/06/2010	31/12/2009
	EUR mill.	EUR mill.
Foreign currency forward contracts	(12.9)	(2.5)
Other hedges	(2.0)	(0.7)

The hedges as at 30 June 2010 have maturities of up to 20 months.

Price Risk

The Group employs futures traded on the respective commodity exchange to hedge and manage raw material price risk (aluminum, natural gas). These hedges as at 30 June 2010 have maturities of up to 18 months. Unrealized losses as at 30 June 2010 from the valuation of open futures or, respectively, the gain from the closing of contracts with delivery in the subsequent period came to EUR 0.5 mill. (31 December 2009: EUR 0.3 mill.) and are directly recognized in equity.

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Note 23. Events after the balance sheet date

In the course of strategic portfolio assessments, sales negotiations were opened for parts of business unit Filaments after the balance sheet date 30 June 2010. This unit at the end of June 2010 employed a staff of 384, generating sales of EUR 26.2 mill. (about 3% of consolidated sales). The intention is to focus on the core business of the group, viscose fibers. As the outcome of negotiations is uncertain they may result in no agreement.

Note 24. Corporate bodies

Changes:

Members of the supervisory board

The general shareholders' meeting of 30 April newly elected Michael Junghans, chairman of the management board of B & C Industrieholding GmbH and reelected Hermann Bell to the supervisory board.

The constitutive meeting of the new supervisory board held after the general shareholders' meeting elected Hermann Bell as chairman and Michael Junghans as deputy chairman of the supervisory board.

The resulting changes in the supervisory board of Lenzing AG are summarized as follows:

Winfried Braumann, Vienna
Deputy chairman (until 30 April 2010)

Michael Junghans, Vienna
Deputy chairman (from 30 April 2010)

Members of the management board

Thomas G. Winkler as of 1 April 2010 was appointed member of the management board for three years.

The resulting changes in the management board of Lenzing AG are summarized as follows:

Christian Reisinger (until 31 March 2010)

Thomas G. Winkler (from 01 April 2010)

The condensed interim financial statements of the Lenzing Group at hand have neither been audited nor reviewed by an auditor.

Lenzing, 18 August 2010

The Management Board:

Peter Untersperger

Friedrich Weninger

Thomas G. Winkler

Statement of the Management Board

Statement of the Managment Board in compliance with section 87 paragraph 1 (3) of the Austrian Stock Exchange Act

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

Lenzing, 18 August 2010

The Management Board:

Peter Untersperger
Chairman of the Board, CEO

Friedrich Weninger
Member of the Board, COO

Thomas G. Winkler
Member of the Board, CFO

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Printed by

kb-offset Kroiss & Bichler GmbH & CoKG

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