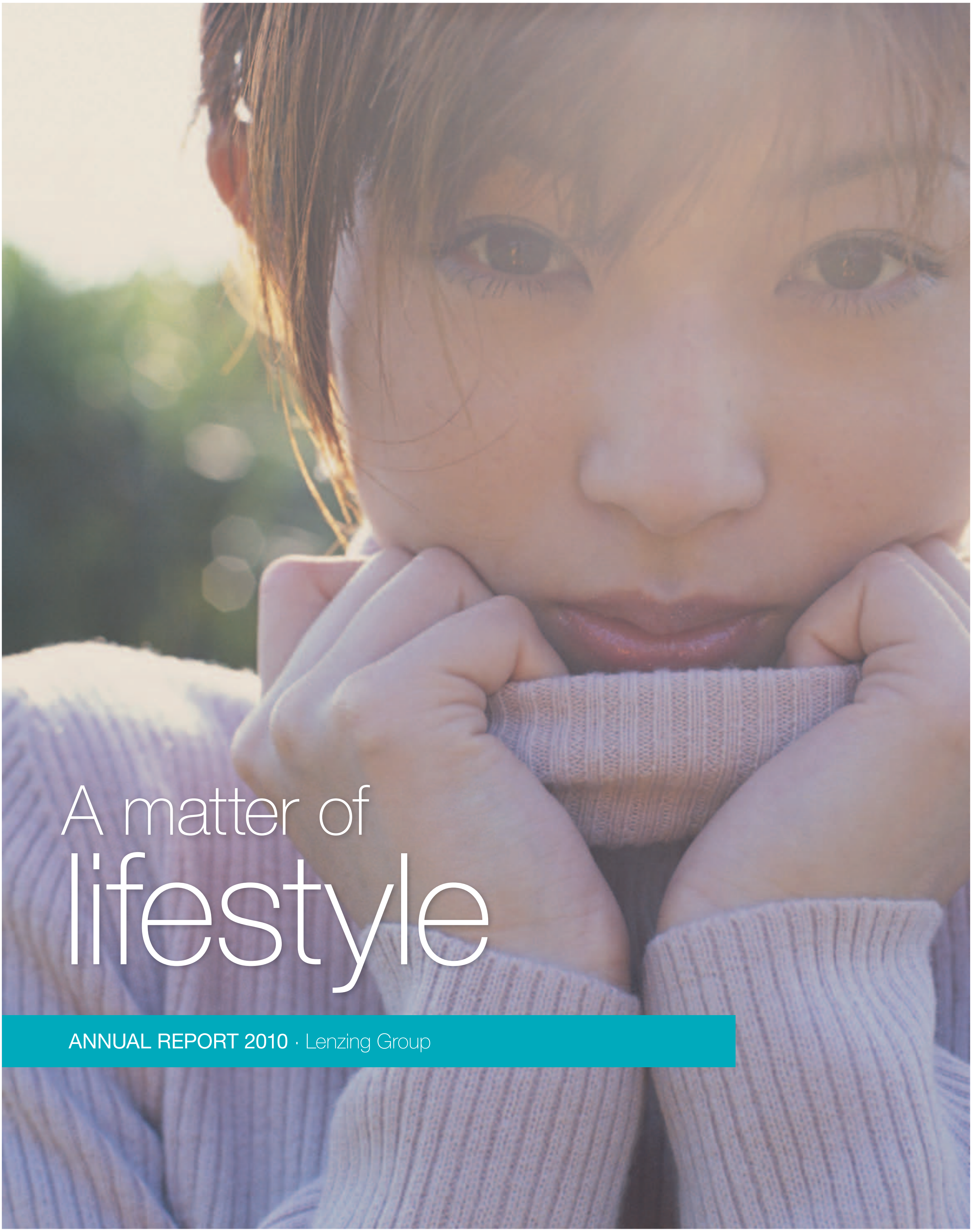


A matter of lifestyle

ANNUAL REPORT 2010 · Lenzing Group

LENZING
LEADING FIBER INNOVATION

www.lenzing.com

Key Data of the Lenzing Group according to IFRS

Business Results

EUR mill.	2008	2009[1]	2010
Sales	1,329.1	1,218.0	1,766.3
EBITDA	200.8	187.9	330.6
EBITDA margin in %	15.1	15.4	18.7
EBIT	130.3	114.2	231.9
EBIT margin in %	9.8	9.4	13.1
EBT	114.7	102.9	216.9
Profit for the year attributable to shareholders of Lenzing AG	77.7	64.4	159.1

Financing Structure

EUR mill.	2008	2009[1]	2010
Cash and cash equivalents	105.8	125.4	305.6
Inventories	209.9	175.6	222.8
Receivables	191.6	169.1	254.9
Liabilities	339.8	397.6	591.8
Net financial debt	365.4	315.7	307.2
Net debt[2]	451.5	397.2	388.5
Retained earnings	482.4	504.3	614.2
Net Gearing in %	60.4	51.9	40.5

Capital Expenditure (Property, plant and equipment)

EUR mill.	2008	2009[1]	2010
Capital expenditure			
Lenzing AG[3]	75.2	53.0	53.6
Group total	158.6	150.4	230.0
Group depreciation and amortization	74.2	77.7	102.5

Cash Flow

EUR mill.	2008	2009[1]	2010
Gross cash flow	157.8	147.4	282.3
Operating cash flow	50.4	250.9	294.0
Net increase (+)/decrease (-) in cash	(4.6)	20.3	127.4
Cash and cash equivalents	105.8	125.4	305.6

Capital Structure

EUR mill.	2008	2009[1]	2010
Liabilities (w/o post employment benefits)	722.7	757.1	1,123.3
Post employment benefits	88.3	81.5	81.3
Adjusted equity	604.9	608.5	758.8
ROCE in %	10.0	8.6	18.4
ROE in %	13.2	11.0	24.9

Stock Exchange

EUR	2008	2009	2010
Common stock in mill.	26.7	26.7	26.7
Market capitalization in mill.	613.7	915.1	2,238.1
Share price as at 31 Dec.[4]	23.9	35.6	87.0
Earnings per share[4 5]	3.02	2.50	6.19

Production

in 1,000 tons	2008	2009	2010
Fibers (total)	540.3	568.6	653.7
Paper	13.7	0.0	0.0
Plastics[6]	27.1	25.9	35.7

1) adjusted comparative figures according to IFRS 5

2 including obgligations for pension and severance payments

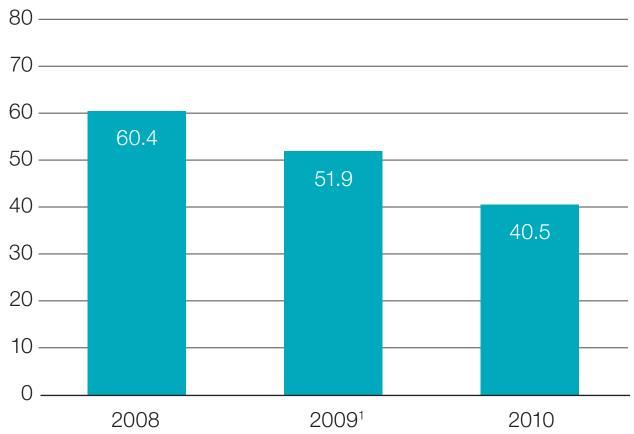
3) including the production site Grimsby in 2008 and 2009

4) In December 2010 the number of shares in circulation was increased to 25,725,000 by a stock split with a proportion of 1:7.
The comparative figures were adjusted.

5) from continuing and discontinued operations

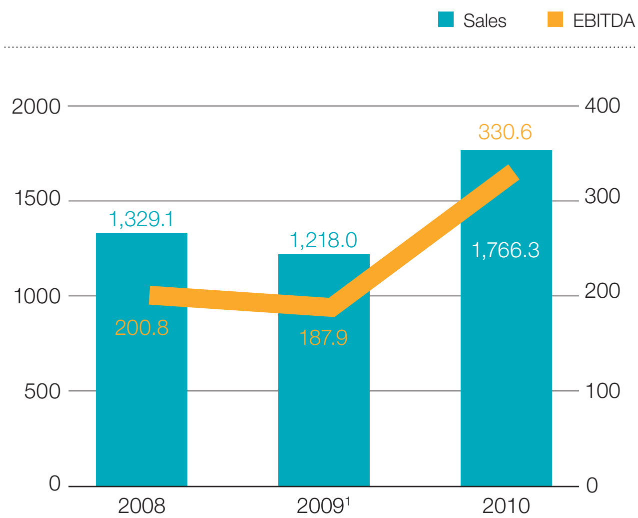
6) from continuing operations

Net Gearing in %

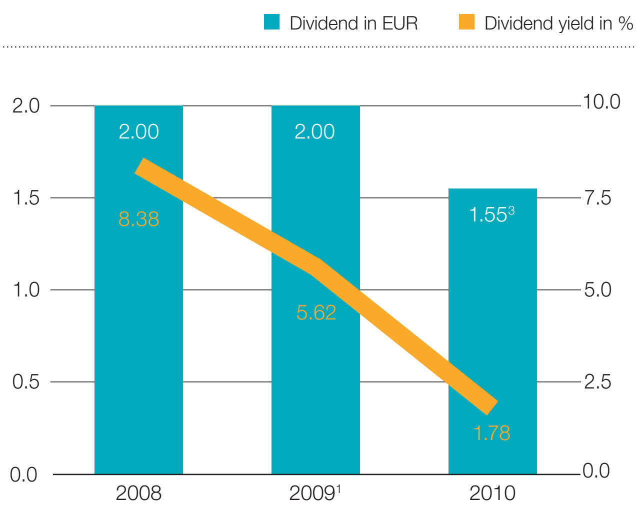


Sales compared to EBITDA

EUR mill.

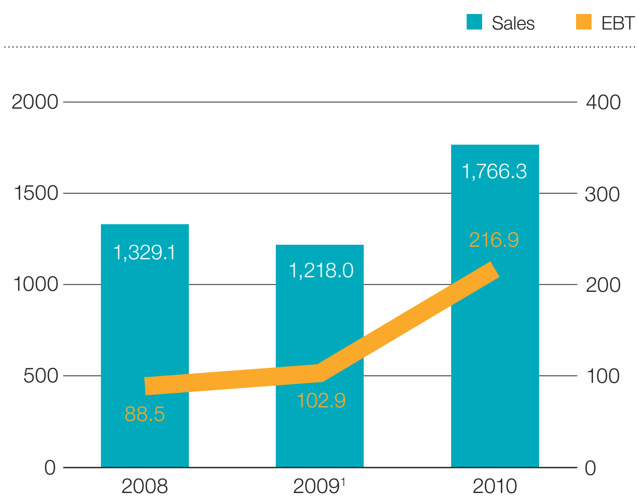


Dividend [2]



Sales compared to EBT

EUR mill.



[1] values adjusted according to IFRS 5 [2] in December 2010 the number of shares in circulation was increased to 25,725,000 by a stock split with a proportion of 1:7. The comparative figures were adjusted. [3] proposal

A matter of lifestyle

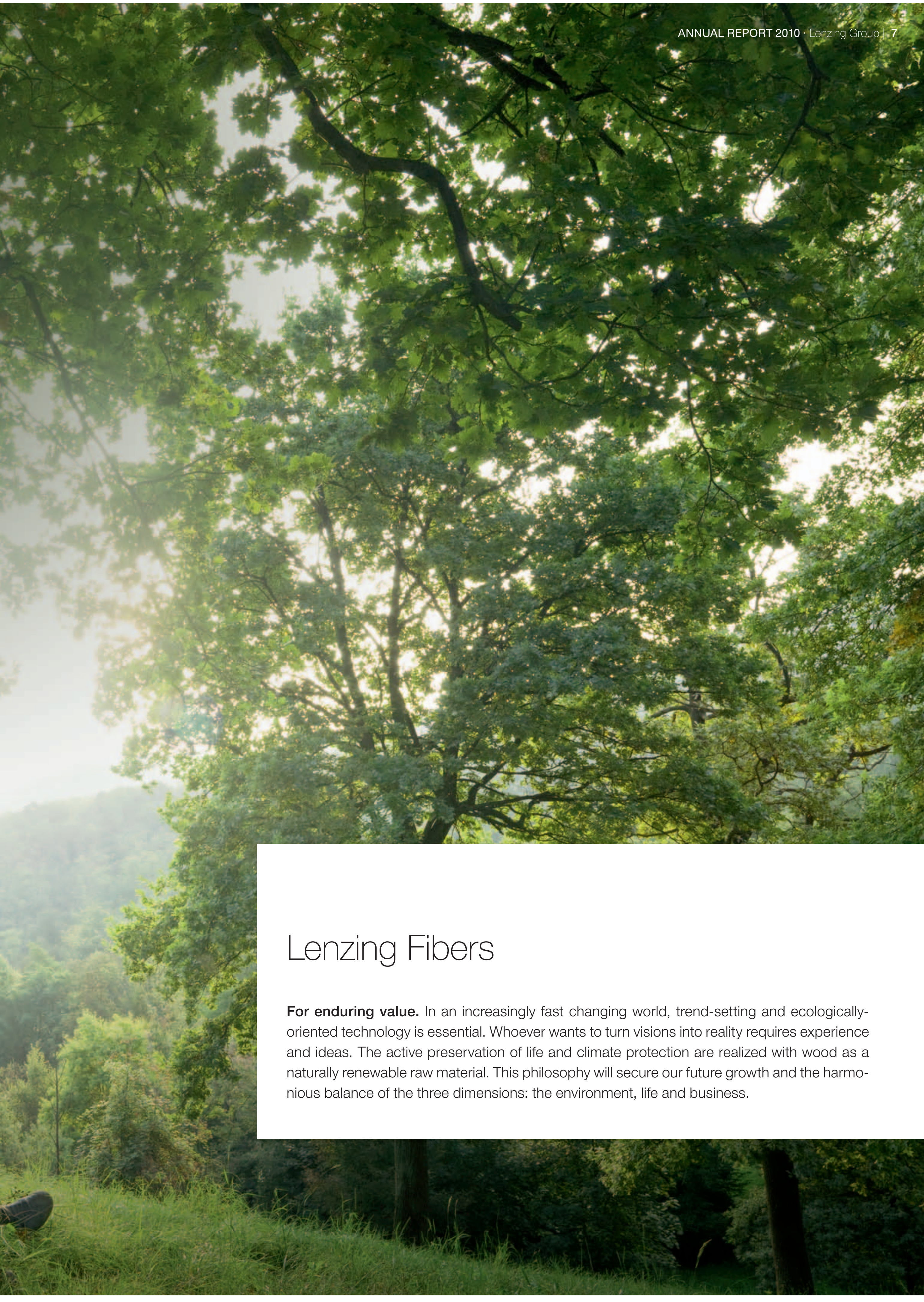
Every challenge in life has its unique charm. But whether a fleeting moment will become a lasting memory or just fade away is a matter of lifestyle. Lenzing fibers make the event permanent: Be it in nature or at sports, be it with oneself or with and for others. Lenzing's fiber variety offers the right choice whenever and wherever the matter of lifestyle really matters.

Contents

*) Not part of Management Report

Fibers to be
in tune with nature

We at Lenzing are global market leaders for man-made cellulose fibers – sustainable thinking is part and parcel of this concept. For decades the wood used in producing our fibers has come from sustainable forestry. Sharing responsibility for the ecological values of nature simply comes naturally to us – keeping in mind that the focus is always on people.



Lenzing Fibers

For enduring value. In an increasingly fast changing world, trend-setting and ecologically-oriented technology is essential. Whoever wants to turn visions into reality requires experience and ideas. The active preservation of life and climate protection are realized with wood as a naturally renewable raw material. This philosophy will secure our future growth and the harmonious balance of the three dimensions: the environment, life and business.

Editorial by the Chairman of the Management Board

The 2010 business year ended as an outstanding record year with the best result in the company's history. We significantly accelerated the dynamic expansion of our company, boosted sales by 45 percent and doubled the result from operations. The foundation was laid for deriving optimum benefit from the widening gap between cellulose supply and demand over the next few years.

When the recovery of the global fiber market gained momentum at the beginning of the year, some were of the opinion that the development of global demand in our industry might slow down again in the course of the year. On the basis of fundamental market research and the feedback from our customers, we always maintained that the upturn perceptible from the middle of 2009 on was most likely not a flash in the pan but the beginning of a sustainable upward trend in the man-made cellulose fiber industry. The dynamic development of 2010 has exceeded even our optimistic expectations.

In our opinion, the 2010 business year is the starting point of a long-term upward development in our industry which is based on a structural transformation of the global demand for fibers. Rising prosperity – above all in the emerging markets – is stimulating global fiber consumption even further. The current per capita figures for fiber consumption are 25 kg for Europe, 12 kg for China and just 5 kg for India. This pent-up demand in itself already indicates the catch-up potential for our industry. Population growth is another long-term growth driver, particularly in the emerging markets.

Cotton can only meet rising demand to a limited extent, due to structural causes. This is particularly relevant to the man-made fiber industry. Man-made cellulose fibers, such as our Lenzing Viscose®, Lenzing Modal® and TENCEL® products, are increasingly becoming the preferred choice for high-quality applications in textiles and nonwovens because of their properties (above all absorbency and ease-of-wear). More and more retail chains and mail order companies offer a comprehensive range of Lenzing Modal® and TENCEL® products. Market analysts have already pointed out the existence of a cellulose gap which is expected to widen over the coming years.

Moreover, consumer awareness of the ecological advantages of man-made cellulose fibers is increasing. These are made from the renewable resource wood and the production process burdens the environment considerably less than the cultivation of cotton with its extremely high consumption rates for water, arable land and agrochemicals.

We assume that this structural change has only just started and that its development will accelerate over the coming years. Special factors in 2010 were the weather-related catastrophes and flooding in the cotton growing areas of Pakistan and India, which clearly demonstrated the danger of an actual physical cotton shortage to the market players.

There are no man-made fibers but Lenzing Viscose®, Lenzing Modal® and TENCEL® which ideally combine great ease-of-wear with an optimal ecological balance sheet and cost-effectiveness.

For Lenzing as a market leader in man-made cellulose fibers, this development has far-reaching consequences: To meet expected customer demand we must accelerate our capacity expansion efforts with determination. We started this process some years ago, but the market expects continued acceleration of growth from a market leader. In consultation with the supervisory board and based on the insights gained in 2010, we have adapted our corporate strategy and defined the steps that need to be taken.

We have decided to implement the biggest investment program in our corporate history over the next four years. We plan to increase our fiber production capacity to more than one million metric tons by the middle of the decade based on investments in expansion and refurbishment to further boost the share of specialty fibers in our portfolio. Taking the current annual production capacity of about 710,000 metric tons at the turn of the year 2010/11, this expansion corresponds to a targeted growth rate of more than 40 percent over a comparatively short period. On balance, we have budgeted investments of up to EUR 1.5 billion by 2014, including maintenance programs.

We know that this goal is ambitious, but we also know that it is attainable. Lenzing's staff has impressively demonstrated its capabilities and competencies in the past business year. The fourth fiber production line in Indonesia was completed and started up efficiently, and the additional quantity produced was very well received by the market. In 2010 we also successfully launched expansion and optimization projects at several productions sites and in part already completed them in record time.

A further milestone in the history of our company was the acquisition of the Czech pulp factory Biocel Paskov in April 2010. It brings us a significant step closer towards our goal of keeping the supply of pulp from our own production in line with the expansion of our fiber production capacity. In this case further additions and higher investments will also be required.

Of similar strategic importance as a sustainable supply of the raw material pulp is a secure and long-term financial basis. The first milestone in this respect was a EUR 120 mill. bond issue in September. It was favorably received, above all by Austrian private investors, and we consider this to be an important vote of confidence in our company.

The second milestone was set by the shareholders of Lenzing AG in December with their resolution on authorized and conditional capital, as well as on a share split which was implemented in December. These measures are intended to increase the attractiveness of the Lenzing share as well as to provide the company with increased financing flexibility via the capital market. Our core and majority shareholder, B & C, has pledged its support for implementing our expansion strategy as well as for making the Lenzing share more attractive.

Absolute focus on the expansion of our core business cellulose fibers was the reason behind Lenzing's carefully considered decision to divest its Filaments business. The companies in this segment performed well again in 2010, and a new ownership structure will provide them with better long-term development potential.

We are looking forward to business year 2011 with confidence: The decisions taken in 2010 have laid the groundwork

Editorial by the Chairman of the Management Board

for Lenzing to be able to continue and even accelerate the expansion process of the past few years. But for us growth is not just about adding production quantity, it is also about quality and sustainability. Lenzing does not pay mere lip service to its responsibility for the environment.

Moreover, Lenzing further enhanced its global reputation as a leader in quality and innovation. The expansion of our production capacity for high-quality fibers will go hand in hand with even better customer service and intensive research and development to continually expand our innovation pipeline. We will also focus a great deal of attention on maintaining the superior quality of our standard fiber types. We not only want to set standards in our industry, as we have shown in the past, but to develop them further as well.

In closing, I want to thank our customers for their good cooperation in the past business year. And my sincere thanks go out to all our employees who laid the foundations for this special record year. I would also like to express my appreciation to our shareholders and creditors for their trust in our company. Trust has been and will remain the basis of our working together.

Yours,

Peter Untersperger

The Lenzing Group

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

Lenzing quality and Lenzing innovative power set standards for man-made cellulose fibers worldwide.

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

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

The Management Board Lenzing Group

Responsibilities

Peter Untersperger	Friedrich Weninger	Thomas G. Winkler
Chief Executive Officer	Chief Operating Officer	Chief Financial Officer
Chairman of the Management Board	Member of the Board	Member of the Board
Business Unit Engineering	Business Unit Textile Fibers	Global Finance
Corporate Communications	Business Unit Nonwoven Fibers	Global Information Technology
Global Human Resources	Business Unit Pulp	Global Purchasing
Internal Audit	Business Unit Energy	Legal Management
Mergers & Acquisitions	Business Unit Plastics	Risk Management
Wood Purchasing	Business Unit Filaments	
	Safety, Health & Environment	
	Environmental Protection Lenzing	
	Infrastructure Lenzing	
	Business Planning	

Lenzing at a Glance

Segment Fibers

Business Unit
Textile Fibers

Business Unit
Nonwoven Fibers

Business Unit
Pulp

Business Unit
Energy

Segment Plastics Products

Business Unit
Plastics

Business Unit
Filaments

Segment Engineering

Business Unit
Engineering

Business Unit Heads

Textile Fibers
Dieter Eichinger

Nonwoven Fibers
Wolfgang Plasser

Pulp
Wilhelm Feilmair

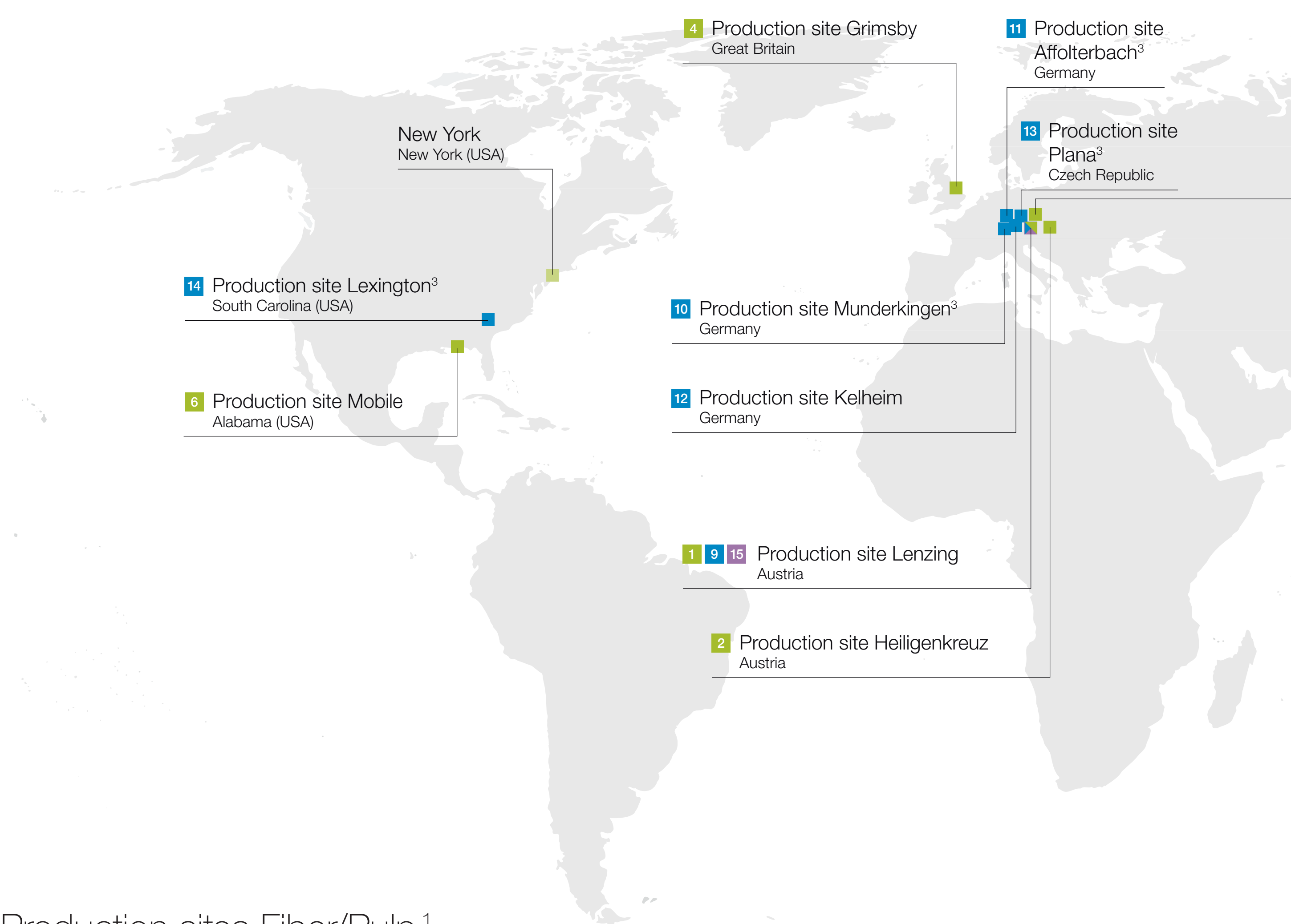
Plastics
Johann Huber

Filaments
David Hoyland

Engineering
Herbert Hummer

Energy
Gottfried Rosenauer

The Lenzing Group 2010



Production sites Fiber/Pulp[1]

1 Lenzing, Austria
World´s largest integrated pulp and viscose fiber production site
Annual capacity: 289,000 tons of pulp[2]
260,000 tons of fibers

2 Heiligenkreuz, Austria
Lyocell fibers (TENCEL®)
Annual capacity: 50,000 tons

3 Purwakarta, Indonesia
Viscose fibers
Annual capacity: 240,000 tons

4 Grimsby, Great Britain
Lyocell fibers (TENCEL®)
Annual capacity: 40,000 tons

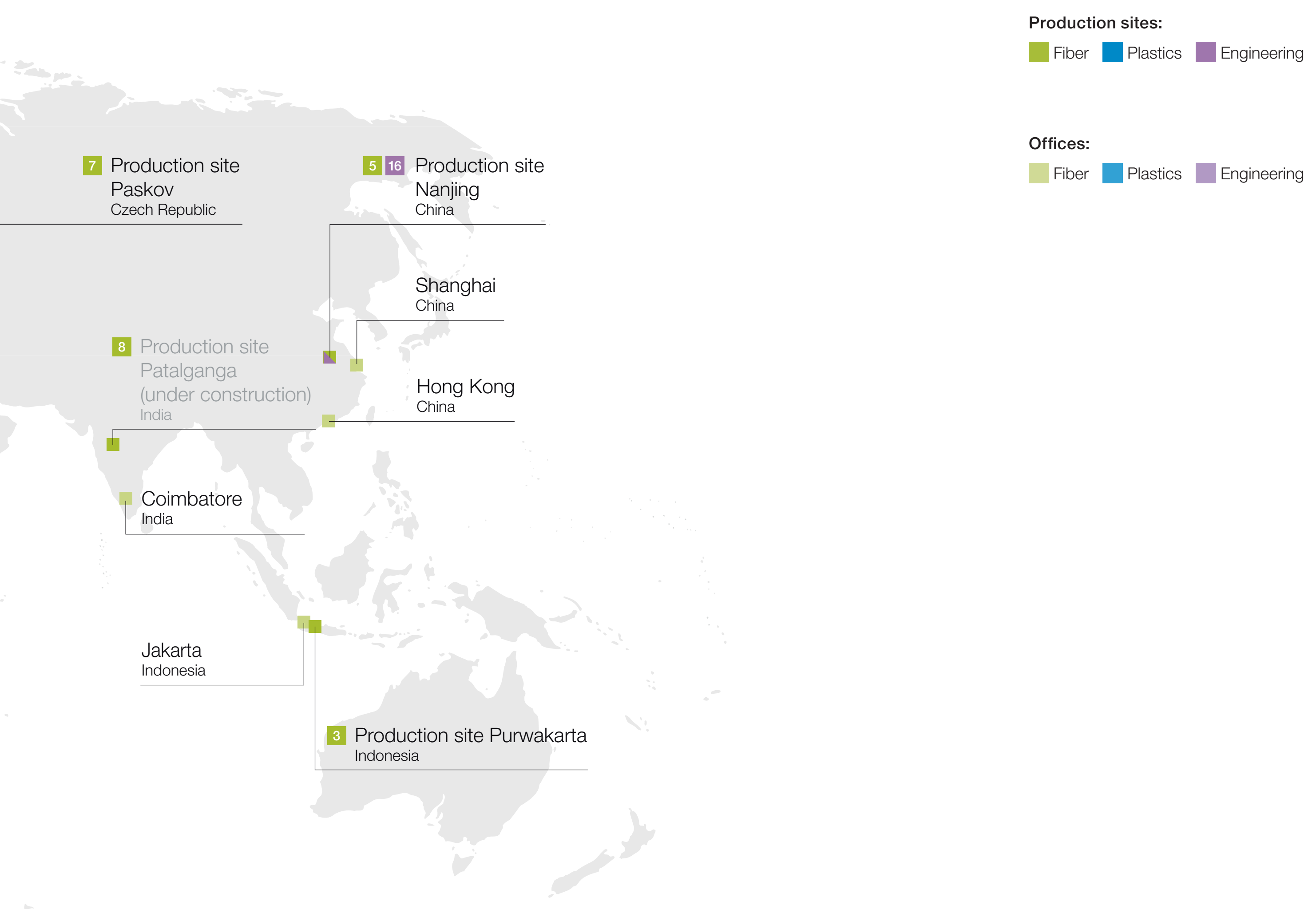
5 Nanjing, China
Viscose fibers
Annual capacity: 80,000 tons

6 Mobile, Alabama (USA)
Lyocell fibers (TENCEL®)
Annual capacity: 40,000 tons

7 Paskov, Czech Republic
(Paper) pulp production
Annual capacity: 280,000 tons[2]

8 Patalganga, India
under construction

[1] All figures in metric tons as at 31 December 2010 [2] Air-dry [3] Discontinued operation



Plastics

9 Lenzing, Austria
Thermoplastics, PTFE

10 Munderkingen, Germany[3]
Bristles, monofilaments, abrasives

11 Affolterbach, Germany[3]
Dental care, bristles

12 Kelheim, Germany
Acrylic fibers, carbon fiber precursor

13 Plana, Czech Republic[3]
Bristles, monofilaments

14 Lexington, South Carolina (USA)[3]
Bristles, monofilaments, abrasives

Engineering

15 Lenzing, Austria
Technology competence center

16 Nanjing, China
under construction

Strategy of the Lenzing Group

Strategic orientation and objectives

Lenzing expects demand for man-made cellulose fibers to dynamically increase once again in the years to come. Three main megatrends are decisive influencing factors in this regard:

- Ongoing population growth is driving global fiber consumption. Thus UNESCO (UN) anticipates the world population to climb from the current level of 6.9 billion to 7.7 billion by the year 2020.

- The growing prosperity, especially in the up and coming emerging markets is unleashing additional pent-up demand due to their lagging behind the Western industrialized countries. Accordingly, per capita fiber consumption is currently 5 kg in India and 12 kg in China, in contrast to a level of 25 kg per person in Western Europe.

- Increasing importance is being attached to sustainability considerations and climate change. Consumers are demonstrating their growing preference for products which are as environmentally compatible as possible and feature low resource use, and carefully scrutinize their impact on global climate change ("CO_2 footprint"). Due to the fact that man-made cellulose fibers are made from the renewable resource wood in an environmentally friendly production process, Lenzing also expects a further increase in demand for its fibers for this reason.

On the basis of these megatrends, Lenzing in its role as a global market leader for man-made cellulose fibers anticipates being able to take advantage of disproportionately high growth opportunities for its fiber products compared to the average growth in fiber consumption.

Moreover, cotton farming is increasingly competing for arable land used for growing food, animal feed or agrofuels (biodiesel, bioethanol). For example, the consumption of water in cotton production is actually 20 times higher* than for the comparable amount required for manufacturing TENCEL® – not to mention the extensive use of agrochemicals (pesticides, herbicides and insecticides). Moreover, global climate change is causing increasing volatilities in the cotton harvest and the price of cotton, as demonstrated by the large-scale flooding in Pakistan and India in 2010.

For these reasons, market experts expect that cotton will not be able to sufficiently fulfill demand for high quality fibers boasting high wearing comfort despite the extensive use of genetically modified cotton plants. This shortage will lead to a so-called "cellulose gap" which cannot be filled on the basis of the anticipated growth of production volumes for man-made cellulose fibers at the present time. Additional factors in Lenzing's favor are the outstanding technical properties of Lenzing fibers as well as the fact that the company is the only global supplier which can offer all three generations of man-made cellulose fibers, i.e. Lenzing Viscose®, Lenzing Modal® and TENCEL®.

Lenzing "Full Win"

On the basis of these fundamental considerations, Lenzing redefined its strategic objectives leading up to the year 2014 as follows:

- More than one million tons of Lenzing fibers are to be produced and marketed annually,

- of which more than one-third are specialty fibers (Lenzing Modal®, TENCEL®),

- enabling an average double-digit percentage sales growth

- and a simultaneous margin improvement,

- with about 700,000 tons of the required pulp supply derived from its own production capabilities.

*) Life Cycle Assessment of Man-made Cellulose Fibres – Li Shen, Martin Patel

Lenzing aims to achieve these targets by implementing the biggest expansion program in its corporate history, with expansion investments planned at almost all of its production facilities across the globe.

These goals have been encompassed both in qualitative and quantitative terms within the context of a new business strategy entitled "Full Win".

Fokus (Focus)

Lenzing's core business is fibers. The fiber business should account for more than 90% of Group revenues.

Unabhängigkeit (Independence)

At least two-thirds of the pulp required for fiber production is to be derived from its own production capacities. A maximum of 75% of the financing requirements is to be covered by bank loans.

Leistung (Performance)

corresponds to double-digit percentage sales and earnings growth in the Lenzing Group, also career development opportunities and the right motivation for employees.

Leidenschaft (Passion)

means that Lenzing will continue to regard the "Lenzing spirit" displayed by its employees as the guarantee for future success. This passion for the company distinguishes Lenzing from many other firms.

Weltmarktführer (World market leadership)

Lenzing aims to be the global market leader, particularly on the basis of quality, customer orientation, technology as well as the company's size. Thus Lenzing defined the objective of producing one million tons of fiber p.a. including one-third specialty fibers in order to achieve further economies of scale.

Innovation (Innovation)

has been and will remain the driving force of Lenzing's business, both in terms of manufacturing processes for products as well as applications. Accordingly, Lenzing will also devote a leading-edge share of its sales to research and development in the future.

Nachhaltigkeit (Sustainability)

Lenzing has positioned itself as a sustainable company with environmentally compatible products based on its carefully managed production processes and wood, the renewable raw material.

Also in future, sustainability will remain a corporate principle Lenzing embodies and lives by, from an ecological, economical as well a social point of view.

Lenzing is pursuing a sustainable dividend policy and will also invest at least EUR 0.5 million annually for social and charitable purposes.

The fiber for peak performers

Good preparation and professional equipment are the best starting points for ensuring that physical exercise helps us to find a balance to our everyday, frequently hectic lives. TENCEL®, the optimal fiber for sporting activities, not only helps us to keep a cool head thanks to its high moisture absorption, but also to keep our bodies dry.

TENCEL®

For optimal performance. The smooth surface of TENCEL® ensures a cool, smooth feeling on the skin. Its "natural intelligence" makes this fiber unique – thanks to the fine fibrils in the fiber itself. Sub-microscopic channels between the individual fiber fibrils regulate the absorption and release of moisture. It is simply the ideal fiber for all sports activities, so that the space between the body and the sportswear remains dry.

Products of the Lenzing Group

Segment Fibers

Lenzing's innovation lead ensures that special fibers made by Lenzing can be found in almost every branch of the textile industry – from lingerie to firefighters' protective wear.

Business Unit Textile Fibers

TENCEL®

TENCEL® is made from eucalyptus wood produced by sustainable forestry. The production process received the European Award for the Environment of the European Union. The fiber's properties such as moisture management and skin-friendliness make it an attractive choice for many applications.

Areas of application:

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

Lenzing Modal®

Lenzing Modal®, the Lenzing fiber classic, is distinguished by being made from beech wood and with integrated process control. The fiber is super soft and skin-friendly and stands for gloss and color brilliance.

Areas of application:

- Terry products
- Homewear and lingerie
- Fashion knitwear

Lenzing Viscose®

More than 70 years of production experience in viscose fibers set the international quality standard for processing.

Areas of application:

- Woven and knitted garments

Lenzing FR®

The extraordinary properties of this flame-retardant special fiber in heat insulation and moisture management reduce the risk of heat stress or heat stroke and increase protection from second and third degree burns.

Areas of application:

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

Business Unit Nonwoven Fibers

Their cellulose origin makes Lenzing fibers naturally absorbent, making them the natural choice for nonwovens. Lenzing fibers are used in sensitive applications such as cosmetics, hygiene and medicine. Moreover, they are used in advanced electrical and filter applications, as well as carbon fiber precursor.

Lenzing Viscose® and TENCEL® are fully biodegradable after use – a property which helped Lenzing to receive numerous environmental awards such as the European Flower, the Nordic Swan and the DIN Certco certification. DIN Certco has registered nonwoven materials made of 100 % Lenzing fibers as compostable.

Lenzing Viscose®

Purity, skin friendliness and breathability make Lenzing Viscose® an excellent choice for applications in hygiene and other sensitive areas.

Lenzing Viscostar®

Its special cross section makes Lenzing Viscostar® particularly absorbent. It is used mainly by the tampon industry. This fiber was developed to meet the customers' exacting requirements in hygiene applications.

TENCEL®

The improved physical properties of this fiber, such as increased tensile strength, especially when wet, low linting and natural absorbency make TENCEL® the advanced fiber of the nonwovens industry. TENCEL® delivers the unique combination of efficiency, purity and softness.

Fields of application for Lenzing Viscose® and TENCEL®:

- Wipes for infant care, cosmetic, domestic and industrial applications
- Wound pads, surgical swabs and components of surgical gowns
- Tampons
- Separators for highly efficient energy storage in advanced electrical products
- Fuel and oil filters, as well industrial filtration of air and liquids
- Carbon fiber precursor for high-temperature applications

Business Unit Energy

- Electricity
- Heat
- Utilities
- Disposal management

Products of the Lenzing Group

Segment Plastics Products

Thermoplastics, polytetrafluoroethylene (PTFE), solution-dyed acrylic fibers and precursor for carbon fiber manufacture are just a few examples from the broad range of business fields covered by segment Plastics Products. The products are used in special high-tech applications such as medical technology, dental floss, automotive, hot gas filtration and in construction materials. Two business units with two subunits each manage the versatile product range.

Business Unit Plastics

Thermoplastics:

Production of films, fabrics, tapes and multilayer laminates

Areas of application:
- Construction materials
- Cables
- Insulation

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

Business Unit Filaments

Monofilaments:*

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

*) Discontinued operations

Fibers:

Special homopolymeric and copolymeric acrylic fibers

Areas of application:
- Car tops
- Sun shades and awnings
- Indoor and outdoor furniture
- Technical fibers for filtration and building sectors

Precursor for carbon fiber production

Areas of application:
- Wind energy systems
- Aviation and automotive
- Yacht construction and sports equipment

Segment Engineering

Segment Engineering essentially consists of the company Lenzing Technik GmbH. Its staff of about 600 realizes engineering projects, plant construction and services worldwide in these fields:

Business Unit Engineering

Engineering and Contracting:

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

Automation and Mechatronics:

- Automation
- Mechatronics

Mechanical Construction and Industrial Services:

- Mechanical Construction and Industrial Services
- Sheet Metal Technology

We don't rest on our laurels

Beddings made of TENCEL® tempt us to drift off into a pleasant sleep. Nevertheless we stayed awake and active in the year 2010. The results speak for themselves. But the competition never sleeps. As the market leader we also want to expand our position in the future and exploit growth opportunities in the market.

MANAGEMENT REPORT 2010

Management Report 2010

General Market Environment[1]

The worldwide economic recovery continued in 2010. The main factors driving growth were the global industrial sector, which developed more favorably than expected as well as the numerous economic stimulus packages, including efforts to boost private consumption in China. The most recent forecast predicted global economic growth of 5.0%[2] for the year under review, compared to a decrease of 0.6%[2] in 2009.

As a consequence of the improved state of the global economy and the accompanying return to normalcy, fiber demand around the world developed very gratifyingly.

New all-time high for fiber production

According to preliminary estimates, global fiber production rose by 8.7% to 73.2 mill. tons in 2010, following a growth of only 1.1% to 67.4 mill. tons in the previous year. This performance clearly surpassed the previous record figure of 72.3 mill. tons achieved in the year 2007.

Due to a base effect, cotton production reported an even more distinct increase, rising by about 13.0% to 24.7 mill. tons in the harvest year 2009/10. Nevertheless, cotton production was still below the comparable levels of 2005 and 2006, in which the total yield amounted to more than 26 mill. tons. Experts assume that cotton production will not be able to be raised to the same extent as in the past, due to the limited availability of arable land. Worldwide cotton cultivation intensively competes with acreage devoted to successful plants such as soybeans and land dedicated to growing various grains as a means of fulfilling growing demands for biofuels, feed and food.

Moreover, large-scale flooding in Pakistan and India during the year under review led to a physical shortage of cotton, and subsequently to exorbitantly rising prices. In the textile chain, the rainstorms in Pakistan, in particular against the backdrop of a potential global climate change, led to a fundamental change in people's views in 2010. There is a growing awareness that cotton is a highly volatile and environmentally sensitive agricultural product. In addition, fiber demand in 2010 was further stimulated by the quick rise in prosperity and population growth in the emerging markets.

Wool production continued to be at a low level, with total production estimated at 1.2 mill. tons.

Upward trends for chemical fibers

Chemical fibers also benefited from the strong growth and the structural transformation of the global fiber market. In 2010 the world's synthetic chemical fiber production rose by an estimated 6.0% to 43.1 mill. tons. Preliminary figures show an even stronger increase for man-made cellulose fibers (viscose, modal, lyocell, acetate, etc.), rising by 12.9% and setting a new record with 4.2 mill. tons.

As in past years, growth in 2010 was once again driven by demand in China, which already accounts for approximately 60% of the world's chemical fiber production.

Record production of man-made cellulose fibers

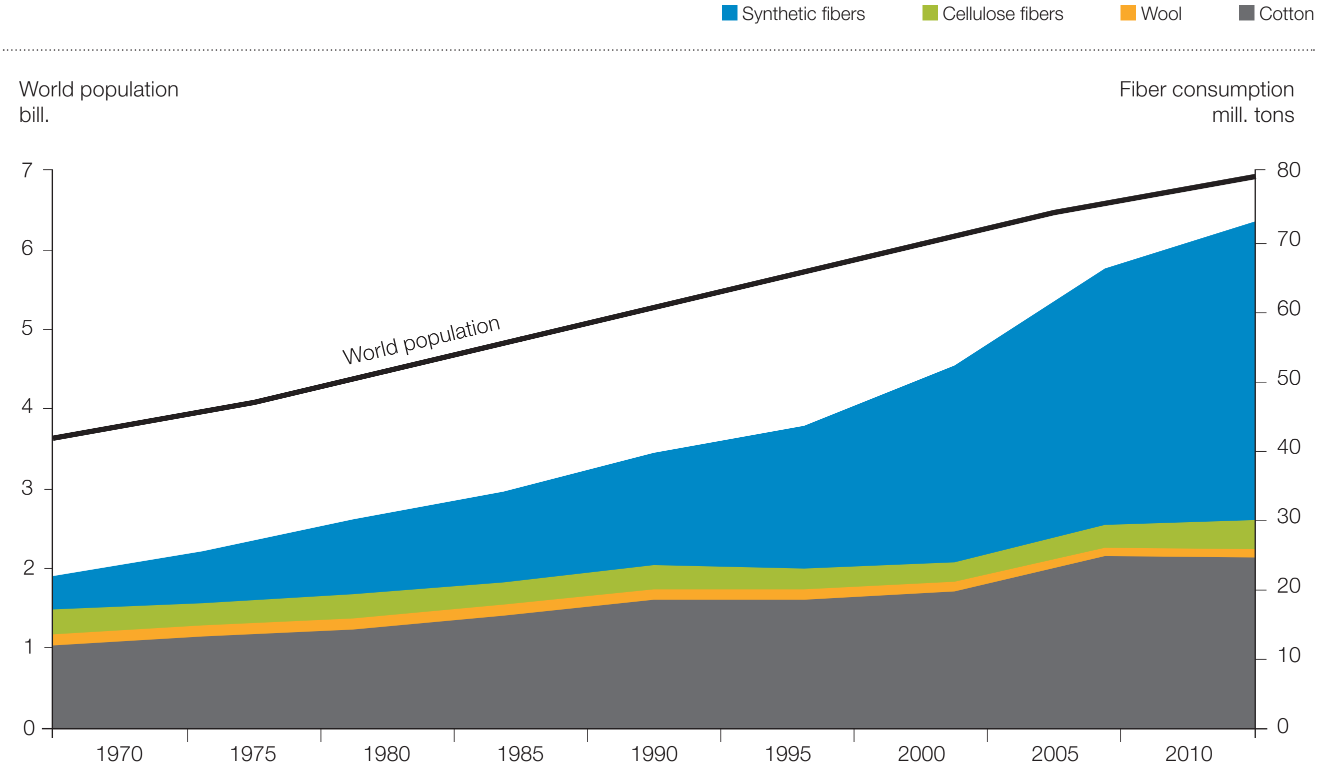
The new record production level of 4.2 mill. tons of man-made cellulose fibers (+12.9% compared to 2009) can be primarily attributed to the increase in viscose staple fibers (3.3 mill. tons).

1) CIRFS, Gherzi, Lenzing Estimates, Fiber Economics Bureau, Cotton Outlook (Initial estimates can deviate considerably from the final figures).
2) International Monetary Fund

The Chinese market was once again responsible for the most impressive volume increase for viscose staple fibers, accounting for a rise of about 25% to 1.9 mill. tons. In the year 2010, 56% (2009: 53%) of global cellulose staple fibers were manufactured in China. All production facilities in Europe were operating at full capacity.

World population and fiber consumption

1970 – 2010



Sources: Lenzing AG, CIRFS, Fiber Economics Bureau

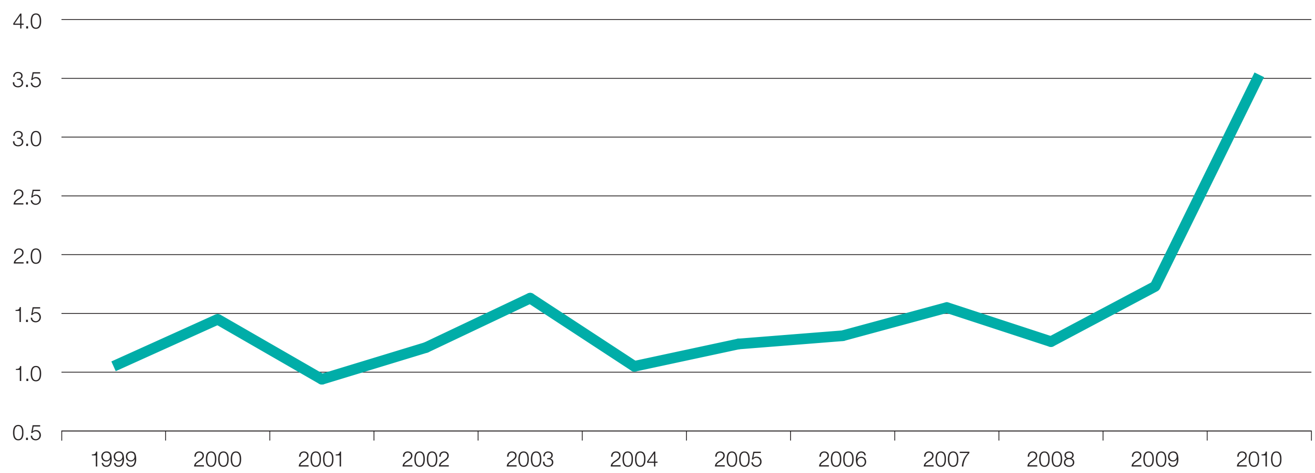
Management Report 2010

Fiber prices

Generally speaking, fiber price development in 2010 was in line with the overall strong level of demand as well as the expected physical shortage of cotton. The selling price for cotton, which serves as a reference point for a variety of fiber prices, started the year at about 77 US cents per pound[1] (Cotton A Index) and continually rose in the course of the first half-year. The second half of 2010 was characterized by exploding prices, unleashed by the above-mentioned large-scale flooding in India and Pakistan. As a result, cotton prices rose to over 90 US-cts/lb in the middle of the year and reached its absolute all-time high in December of the reporting year, at 186 US-cts/lb*.

Development of Cotton Price

Cotton A Index
In USD/kg



Source: Cotton Outlook

*) National Cotton Council of America

Polyester fiber prices also climbed in the year 2010. In addition to strong demand for chemical fibers, the decisive factors were the high price of crude oil and generally rising costs for intermediate products used in the plastics sector.

Prices for viscose fibers also continually increased in the first half of 2010 as a result of strong demand so that there was a danger of the market overheating. Eventually there was a leveling off of the upward trend in Asia during the summer. However, the flooding which took place in key cotton growing areas of Asia clearly pushed up viscose prices again starting in August of the year under review. In contrast to the longstanding price structure and as a consequence of exploding prices for cotton, viscose prices fell below the corresponding cotton prices in the second half of 2010.

Development of the Lenzing Group

The Lenzing Group was able to optimally benefit from the dynamic development of the man-made cellulose fiber market in the 2010 business year thanks to its positioning as a world market leader and its consistent growth strategy. Lenzing achieved absolute record results in 2010. The growth rates for all relevant sales and earnings indicators also reached absolute record levels.

Consolidated sales in the reporting year 2010 climbed to EUR 1.77 bill. compared to EUR 1.22 bill.* in the previous year. This 45.0% sales increase can be attributed to higher fiber prices (about 20 percent points), to the 15%-increase of production volumes (15 percent points) as well as to the acquisition of the pulp plant Biocel Paskov (about 10 percent points). Adjusted for acquisitions, the organic growth was 36.3%

Sales of the discontinued operations in the Segment Plastics Products are shown in the result from discontinued operations.

Segment Fibers accounted for 89.7% of consolidated sales, whereas Segment Plastics Products generated 8.1% and Segment Engineering contributed 2.1%; Others accounted for 0.1%.

The cost of material rose by 50.1% to EUR 1,028.5 mill. (2009: EUR 685.1 mill.), which was due to the significantly higher production volumes for pulp and fibers in comparison to the prior-year level, as well as the sharp raw material price rises for wood, pulp and chemicals. Cost of material comprised 58.2% of sales (2009: 56.3%).

Personnel expenses were up 10.4% to EUR 259.2 mill. (2009: EUR 234.8 mill.). This development is related to the 5.9% increase in the number of employees (compared to the 2009 annual average figure) reflecting the consolidation of the Biocel Paskov pulp plant and the full commissioning of the fourth production line at PT. South Pacific Viscose (SPV) in addition to general salary increases at other sites. Personnel expenses amounted to 14.7% (2009: 19.3%) of sales.

Consolidated EBITDA (earnings before interest, tax, depreciation and amortization) amounted to EUR 330.6 mill., up 76.0% from the prior-year level (2009: EUR 187.9 mill.). The ratio of net financial debt to EBITDA was 0.9 at the balance sheet date, underlining the very solid financial position of the Lenzing Group. The EBITDA margin was at an all-time high of 18.7% (2009: 15.4%).

The income from operations (EBIT) increased by 103.1%, rising from EUR 114.2 mill. in the previous year to EUR 231.9

*) 2009 figures adjusted; please refer to note 5

The fiber to be in tune with yourself

Simply let go, find peace of mind and don't allow yourself to be distracted from any disturbing influences from the outside. In a stress-plagued world times of withdrawal and contemplation are becoming increasingly important. A feeling of well-being is strengthened with clothing made from Lenzing Modal®. For more than 40 years Lenzing Modal® has epitomized pleasant softness and pure luxury on the skin like no other fiber has done. Lenzing Modal® – makes the world a softer place.

Lenzing Modal®

Fulfilling the highest standards, Lenzing Modal® is the ideal partner for body conscious clothing – soft as a feather. The low fiber stiffness of Lenzing Modal® makes it a natural softening agent, for example for fine daywear, intimate apparel or terry products. With every item made of Lenzing Modal® the world becomes a bit more comfortable. Combined with its smooth surface, Lenzing Modal® guarantees perfect wearing comfort. The secret to its success is pure beech wood cellulose derived from sustainably managed forests.

Management Report 2010

mill. in 2010. This corresponds to an EBIT margin of 13.1% (2009: 9.4%), also a new record achieved by Lenzing. In line with the sales growth, the increased EBIT resulted above all from improved prices, higher production volumes and the acquisition of Biocel Paskov.

The lower interest rate level and a corporate bond (EUR 120 mill.) issued by Lenzing with a coupon of 3.875% led to an average interest rate for financial liabilities of about 2.9% (3.5% in 2009).

Income before tax totaled EUR 216.9 mill., compared to EUR 102.9 mill. in the previous year.

A higher income tax expense amounting to EUR 40.2 mill. (2009: EUR 23.0 mill.) and the result from discontinued operations amounting to EUR -6.7 mill. (2009: EUR -13.1 mill.) resulted in a profit for the year of EUR 169.9 mill., up from the prior-year figure of EUR 66.8 mill. The share of the profit attributable to shareholders of Lenzing AG totaled EUR 159.1 mill. (2009: EUR 64.4 mill.), corresponding to earnings per share of EUR 6.19 following EUR 2.50 per share[1] in the previous year. Thus the earnings per share attributable to Lenzing AG shareholders more than doubled in 2010.

Reduction in net financial debt despite high investment activity

Equity of the Lenzing Group came to EUR 732.0 mill. at the reporting date, up from the prior-year level of EUR 585.4 mill. With an adjusted equity ratio[2] of 38.6% of total assets, Lenzing boasts an extremely solid financial position even after a year of extensive investments as well as the acquisition of Biocel Paskov.

Net financial debt of the Lenzing Group amounted to EUR 307.2 mill. at the end of 2010 (2009: EUR 315.7 mill.). Gearing of the Lenzing Group improved from 51.9% to 40.5%.

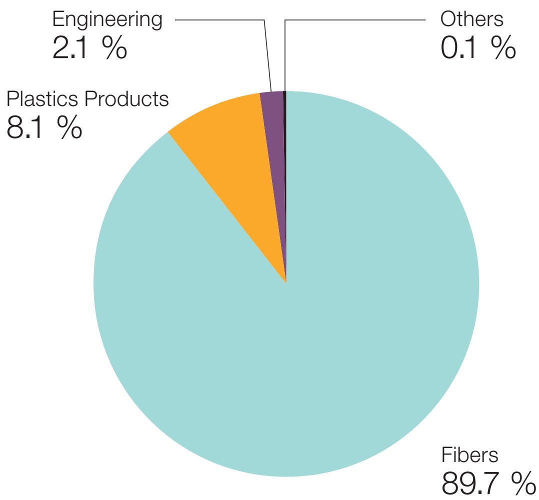
The Group's equity ratio at the balance sheet date 2010 was 37.3%, down from 40.5% in the previous year.

Cash and cash equivalents held by the Lenzing Group amounted to EUR 305.6 mill.[3] as at the balance sheet date 2010 (2009: EUR 125.4 mill.). They will primarily be used to finance the further dynamic corporate growth.

Lenzing Group

Sales by Segment

100% = EUR 1.77 bill.



[1] On a like-for-like basis following the stock split, from continuing and discontinued operations [2] Including investment grants less prop. deferred taxes
[3] Including securities held as fixed assets relating to financial liabilities

Segment Fibers

The 2010 business year for the Segment Fibers was characterized by strong demand for Lenzing fibers. The positive market development in the second half of 2009 continued in 2010 as well. Demand for Lenzing fibers on the part of the textile and nonwovens industry could only be partially satisfied despite the expansion of production capacities in 2010.

The reason for this development was the long-term market trend towards the increased use of Lenzing Viscose®, Lenzing Modal® and TENCEL® fibers as described in the previous section of this report. In addition, the overall economic recovery combined with a broad-based upturn in private consumption also contributed to growth. In fact, the markets in Asia tended to overheat as a result already in the first half of 2010. Ultimately cotton prices exploded as of the third quarter 2010 due to the perceived danger of a physical shortage as a consequence of flood catastrophes in Pakistan and India. This prematurely ended the expected normalization of the price situation in the second half of the year.

Sales and earnings development

The economic performance of the Segment Fibers in 2010 was shaped by this gratifying market development and significantly improved selling prices compared to the previous year. This was accompanied by an expansion of production capacities, full capacity utilization at all sites as well as the acquisition of the pulp plant Biocel Paskov, which was fully consolidated as of May 2010. According to segment reporting, sales amounted to EUR 1,596.4 mill. (2009: EUR 1,090.2 mill.), which corresponds to a growth of 46.4%. Segment EBIT rose by 109.8% to EUR 230.3 mill (2009: EUR 109.8 mill).

The EBIT margin in the Fibers segment improved by 10.1% to 14.4%. All these economic performance indicators represent all-time highs for the segment. Adjusted for acquisitions, organic sales growth was 36.7%, whereas the result from operations (EBIT) was up 95.0%.

Raw material prices which had still been at a relatively reasonable level at the beginning of the year climbed significantly in the course of 2010. However, due to the prevailing market situation and its market position, Lenzing was able to pass on these additional costs to its customers in the form of several price increases.

Massive expansion and refurbishment investments initiated in 2010

The capacity expansion investments, which were continued in 2009 in spite of the global economic crisis, were completed on schedule in 2010. The additional fiber volumes produced by Lenzing relieved demand pressure somewhat in the course of the year. The biggest project was the coming on stream of the fourth production line of the Indonesian subsidiary PT. South Pacific Viscose (SPV), featuring investments of about USD 150 mill. Following a short start-up phase beginning in February 2010, the full capacity of the facility amounting to approximately 60,000 tons annually could already be put into operation in the second quarter. Additional investments (debottlenecking) were made immediately after production was completely ramped up to expand capacity by another 18,000 tons, so that SPV can start the 2011 business year with a total capacity of some 240,000 tons.

In 2010 Lenzing began work on building a second production line at its Chinese production plant in Nanjing, with investments totaling about USD 55 mill. Construction time will be about 18 months. At the same time a debottlenecking program was launched for the first production line. As a result, Lenzing expects total capacity at the Nanjing site to reach about 140,000 tons in the course of 2011.

The TENCEL® production facility in Heiligenkreuz, Austria also raised total capacity by 10,000 tons to about 60,000

Management Report 2010

With the opening of the fourth production line at PT. South Pacific Viscose in Indonesia, the biggest investment project in the company's history was successfully completed.

tons as of the 2011 business year thanks to a corresponding investment program. The TENCEL® factory in Grimsby (Great Britain) carried out refurbishment investments, allowing for a considerable increase in production capacities for the TENCEL® specialty fiber A-100 although total capacity remained the same.

On balance, the expansion and refurbishment investments started in 2010 will boost total cellulose fiber production capacity from about 710,000 tons p.a. up until now to some 770,000 tons p.a. by the end of 2011.

Lenzing continued with its preparation work for the new viscose fiber facility in India, and secured a commercial property on which the new plant will be built.

Fundamental decisions to drive further growth

In December 2010, further, far-reaching fundamental decisions were made as the basis for ensuring the medium-term growth of the Lenzing Group.

It was decided to build the first TENCEL® production plant in Lenzing (Upper Austria), with planned investments of about EUR 130 mill. required to achieve an annual capacity of approximately 60,000 tons. It will be the first backward integrated TENCEL® plant in the world which can be directly supplied by pulp manufactured by the pulp factory in Lenzing.

Furthermore, it was also resolved to invest in the expansion of the TENCEL® facility in Mobile (Alabama) with investment costs of close to USD 30 mill., enabling capacity to be raised to about 50,000 tons. The production line shut down by the previous owner will be modernized and re-equipped as a means of satisfying the strong demand for TENCEL® fibers in North and South America.

Fifth production line at SPV, expansion in Nanjing

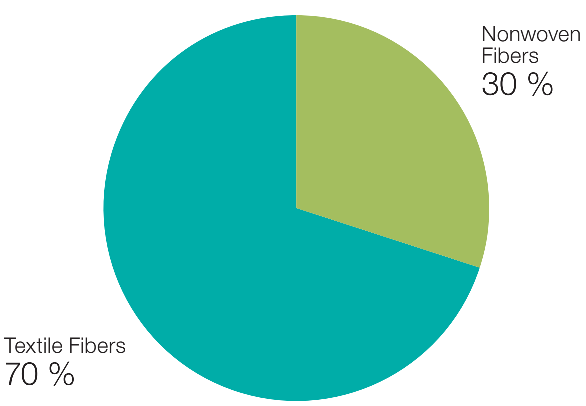
The production facilities in Asia, namely PT. South Pacific Viscose (SPV) in Indonesia and Nanjing (China), are being also further expanded. A fifth production line is being installed at SPV at a cost of about USD 130 mill. It is designed to serve as a "jumbo line" boasting an annual capacity of 80,000 tons, thus raising the total capacity of SPV to an impressive 325,000 tons by the year 2013. The additional production volumes are particularly required to fulfil rising demand on the fast-growing domestic market in Indonesia.

At the production plant Lenzing Nanjing (China), the decision was made to further ramp up output of the second production line immediately after it will have come on stream. An investment project costing about USD 18 mill. will increase the capacity of the second line by 20,000 tons p.a. The additional production volumes will be available starting in 2012.

Moreover, capacities for nonwoven specialty fibers are being further expanded at the Lenzing site. This is based on the upgrading of an existing production line at a cost of approximately EUR 17 mill. The project is scheduled for completion in the middle of 2012.

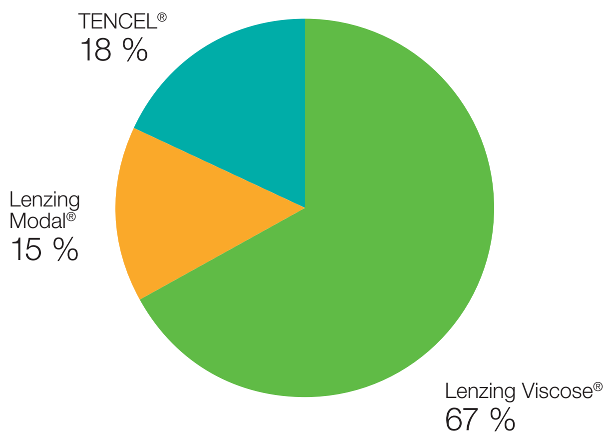
Segment Fibers

Volume distribution by business unit



Segment Fibers

Sales by product group



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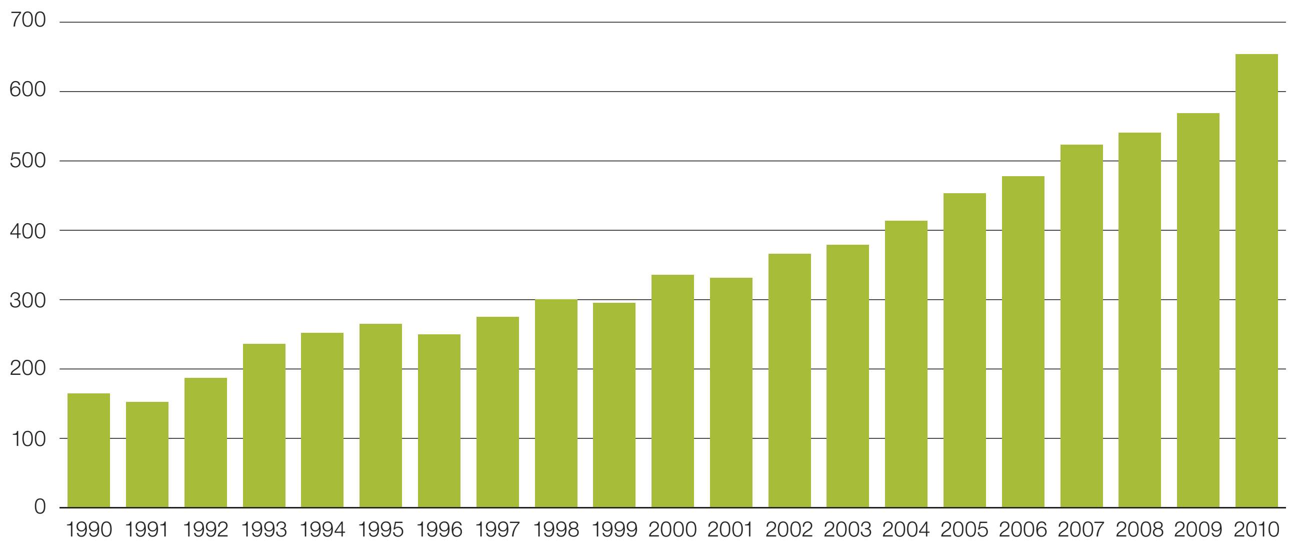
Lenzing Group production

in 1,000 tons



Business Unit Textile Fibers

The Business Unit Textile Fibers enjoyed strong demand for both standard and specialty fibers during the entire year 2010. The specialty fibers Lenzing Modal® und TENCEL® once again achieved above-average success throughout the year under review. In part the textile fiber market was clearly overheated. From a regional point of view, the sales markets in China, Indonesia, India and Turkey particularly boomed. But business was also stable at a high level in Europe, the USA and South America. The Chinese market for standard fibers was subject to a short period of weakness due to the building up of inventories along the textile chain. However, this was very quickly replaced by a strong upswing in demand on the world's largest textile fiber market in the middle of 2010.

Lenzing could pass on the sharply rising costs for raw materials to its customers by carrying out several selling price increases. However, in the interest of maintaining stable and long-term customer-supplier relationships, the upward price adjustments for Lenzing Viscose®, Lenzing Modal® and TENCEL® were set far below the corresponding price jumps for cotton, which in turn further boosted demand for Lenzing fibers. For Lenzing this strategy opened up new possibilities to enter the market for other cotton applications or expand on existing ones (home textiles).

One of the highlights of the 2010 business year was the celebration commemorating the 45th anniversary of Lenzing

Modal®. Lenzing, as the "inventor" of modal, is close to being the exclusive global supplier and has been able to sell one million tons of this outstanding fiber to date. On this occasion Lenzing Modal® customers from across the globe were invited to Austria to participate in a three-day expert symposium. The Lenzing satellite stand at Intertextile Shanghai Exhibition in October 2010 turned out to be a major success for Lenzing's fiber marketing efforts. Lenzing was represented there with its own satellite booth encompassing an area of 1,200 m² which was at the disposal of its customers. 52 companies processing Lenzing fibers took advantage of this service and were extremely satisfied with the visitor frequency. The focus of Lenzing's fiber marketing efforts was promoting its specialty fiber TENCEL® A-100 for the activewear and lifestyle segments and TENCEL® fibers for home textiles.

Outlook Business Unit Textile Fibers

At the beginning of the new business year in 2011 there are no indications whatsoever that the globally strong demand for man-made cellulose fibers will cool off. The considerable newly-added viscose fiber production capacities in China will likely be well received by the marketplace. Despite intense investment activity in the industry, demand should exceed supply in the foreseeable future. Accordingly, the Business Unit Textile Fibers started the new business year with full order books and all factories operating at full capacity. This applies both to the specialty fibers Lenzing Modal® and TENCEL® as well as standard viscose fiber qualities.

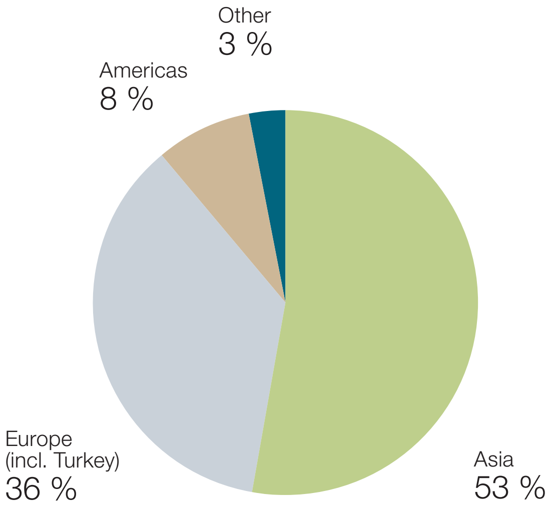
The additional quantities of fiber available to the Business Unit Textile Fibers in the course of the current business year as well as the further improved product mix featuring growth for Lenzing Modal® and TENCEL® will comprise the basis for

The Business Unit Textile Fibers is represented each year at the world's most important textile trade shows. A particular highlight in 2010 was the specialist symposium organized by Lenzing and lasting several days to which Lenzing Modal® customers from all over the world were invited to Salzburg and Lenzing.

Management Report 2010

Segment Fibers

Lenzing Group key markets*



a gratifying business development in 2011. Nevertheless, despite the scarcity of cotton Lenzing will pursue a price policy based on ensuring responsible, long-term and stable customer relationships. The marketing focus will once again be on specialty fibers, such as the new “TENCEL® C” fiber containing chitosan which is particularly integrated into garments worn close to the skin, MicroModal® AIR or new Lenzing FR® applications.

Business Unit Nonwoven Fibers

In the 2010 business year the Business Unit Nonwoven Fibers succeeded in further expanding its position in a growing market. The positive development in 2009 continued despite a volatile market environment. As a result of a 16% rise in fiber shipments, Lenzing managed to sell more than 200,000 tons of nonwoven fibers for the first time in its history, corresponding to about one third of Lenzing’s total volume of fibers distributed to customers. In the light of a global sales market comprising approximately 375,000 tons in 2010, Lenzing is clearly the world market leader for cellulosic staple fibers for the nonwovens industry. Lenzing was able to expand its market position, especially in the market segment for wipes. Raw material costs climbed upwards towards the end of the year.

The success of this business area is based on offering specific solutions for individual customer and market requirements. For this reason, the Business Unit Nonwoven Fibers intensified its marketing activities along the value chain in 2010. In particular, the pull strategy implemented in the wipes segment showed initial success as demonstrated by a branding cooperation with prominent retail chains in the USA and Asia. For example, cooperation in the field of baby products with the leading U.S. retailer Costco could be further intensified. In this regard, Lenzing benefits from the trend towards own brands, which opens up new perspectives to carry out co-branding activities with brands such as TENCEL® and thus raise awareness of Lenzing brands among a very broad consumer base.

The Asian market developed particularly gratifyingly, based on the perceptible increase in demand for consumer-friendly disposable products. The trend towards disposable goods corresponds to the income available to people or their purchasing power. This led to a strong growth in the market for wipes, with sales climbing by more than 10% in China, Taiwan and Korea. Moreover, sanitary products were subject to disproportionately high growth rates in all major cities of Asia.

One innovative example was the market launch of a refreshing towel for men by an international cosmetic brand in Japan. Furthermore, a baby wipe made of 100% TENCEL® was developed in Japan in cooperation with a leading chain store specializing in baby goods and successfully positioned as a premium product.

*) By quantity

The issue of sustainability increasingly emerged as an important distinguishing feature along the value chain. In this sense Lenzing took advantage of the large-scale interest displayed by consumers for the fact that Lenzing fibers are manufactured from the sustainable raw material wood.

In the technical segment, the niche strategy pursued by Lenzing developed extremely positively. Targeted solutions focused on different types of filtration and applications for the latest generations of battery separators.

The hygiene segment reported a good development in 2010, with Lenzing benefiting from the clear trend towards greater skin friendliness and wearer comfort.

Medical applications are also increasingly integrating Lenzing fibers, which are being used for special purposes such as innovative wound pads, or in surgical clothing and plasters.

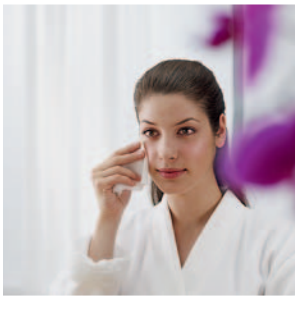
Outlook Business Unit Nonwoven Fibers

All segments of the Business Unit Nonwoven Fibers are on target for growth, a development which will be further supported by the positive market environment prevailing in the first months of 2011 as well as the trend towards environmentally compatible products, which is working in Lenzing's favor.

The year 2011 will see Lenzing engaged in expanding its activities with large retailers such as Walmart and Target. The expansion of production capacities at the plant located in Mobile (Alabama) resolved upon by the company in 2010 represents an important strategic step for the Business Unit Nonwoven Fibers. As the only cellulose fiber factory in North America, the facility offers currency and logistics advantages for supplying the American market.

Europe and the American market continue to show stable single digit growth. Asia remains the strongest growth market. In particular lively demand from China ensured high capacity utilization at the Asian sites for nonwovens in the first weeks of 2011. With respect to the product portfolio, it is important to mention the rising demand for wipes, where Lenzing already enjoys a leading position.

Accordingly, the Business Unit Nonwoven Fibers expects increased shipment volumes for 2011, and a good ongoing earnings development.



The success of the Business Unit Nonwoven Fibers is mainly based on specific solutions tailored to individual customers and market requirements.

The fiber for soft bed warmers

A feeling of well-being within our own four walls, relaxing and recharging our batteries, experiencing calmness and familiarity: TENCEL® is unrivalled in its smoothness and regulates our body's climate – for an all-round feeling of coziness. It's ideal for naturally relaxing in bed. A special kind of sleeping experience – this pleasure gives us fresh energy for the day ahead.

TENCEL®

Dreamlike relaxation. The fiber is used in every aspect of sleeping. It ensures a completely botanic bed from nature – beginning with mattresses and mattress pads to bed covers and linens. TENCEL® is a fiber which is well-known for its positive skin properties. The perfect moisture management of the fiber prevents bacteria from thriving – but in a perfectly natural way. Its structure is particularly smooth and therefore silky to the skin. Sleeping can't get any better.

Management Report 2010

Business Unit Pulp

Dissolving pulp is the most important raw material used in the production of cellulose fibers, and is derived from the sustainable raw material wood. The Business Unit Pulp is responsible for providing a sufficient supply of the right qualities of pulp to all fiber production sites in the Lenzing Group, and thus serves as the basis for ensuring that business proceeds smoothly within the Group. The business unit operates its own dissolving pulp plant at the fully integrated site in Lenzing. Fiber production facilities at the non-integrated sites are supplied with dissolving pulp procured on the basis of long-term contracts or on the open market.

The global pulp market was subject to steadily rising prices in the 2010 business year due to growing demand for viscose fibers and the subsequent enhanced need for pulp. The prices for dissolving pulp reached record levels on spot markets, especially in Asia, as the available quantities were limited and existing capacities were fully utilized. The Lenzing Group partially succeeded in cushioning this development on the basis of existing, long-term supply contracts as well as the full-scale integration of the Lenzing site.

Lenzing took a significant strategic step forward during the reporting year towards ensuring the long-term backward integration of the Lenzing Group by acquiring a 75% stake in the Czech pulp plant Biocel Paskov. After the takeover came the starting shot for converting the paper pulp facility into a swing capacity pulp plant which will be able to manufacture paper pulp as well as up to 240,000 tons of dissolving pulp p.a. as from 2013, primarily for the Group's own fiber production. The adapted total investment volume planned for the site is approximately EUR 100 mill. On a medium-term basis Lenzing plans to achieve a backward integration of more than 50%. This will serve to further safeguard the ongoing

By acquiring the Czech pulp plant Biocel Paskov, Lenzing is promoting its further backward integration and further secures a sufficient supply of pulp.

supply of pulp to the Lenzing Group and reduce the company's dependency on the effects of strongly fluctuating pulp prices. In 2010 Biocel Paskov was already able to produce small quantities of pulp suited for fiber production which were successfully used at various fiber manufacturing sites of the Lenzing Group.

The Paskov facility was confronted with significant price rises for spruce wood in 2010.

Pulp production at the Lenzing site

Starting in 2010, pulp production volumes will no longer be reported in BDMT (bone-dry metric tons) but converted to ADMT (air-dry metric tons). This means an increase in nominal pulp capacity of about 10%. Capacity at the Lenzing site was increased to some 289,000 tons in 2010 by debottlenecking measures. Thereby, despite higher fiber production volumes, the physical full integration of pulp manufacturing and thus a sufficient self-supply capacity could be maintained.

Once again the supply of wood at the Lenzing site could be secured by a corresponding supply chain management and long-term delivery contracts. However, the demand for wood on the part of Central Europe's chipboard and pulp industry led in part to drastic price hikes for all types of wood. During the reporting year additional long-term contracts were concluded with key suppliers, thus securing a large portion of the wood required by Lenzing in the years to come. New logistic routes on the Danube for Romanian wood make it possible to procure beech wood in an environmentally-friendly manner from even greater distances.

By-products of fiber and pulp manufacturing such as acetic acid, wood sugar (xylose), furfural and sodium sulfate are marketed by the Business Unit Pulp within the context of its chemical sales at the Lenzing site. In 2010 the entire acetic acid production was converted to food-grade quality. This enabled the business unit to shift sales from the volatile market for chemical qualities to the more attractive market targeting the food industry.

Outlook Business Unit Pulp

Securely supplying dissolving pulp to all of Lenzing's fiber production sites against the backdrop of a booming market environment for man-made cellulose fibers is the biggest challenge facing the Business Unit Pulp in 2011. The acquisition and conversion of the pulp plant in Paskov as well as other expansion measures being implemented at the Lenzing site are just as important for minimizing risk and serving as the basis for further growth in the fiber segment as the existing long-term supply contracts. The considerable shortage of pulp on the spot market is likely to continue in 2011.

Just like 2010 additional trial runs designed to test the production of dissolving pulp in Paskov will take place in 2011. This will safeguard the technical design of the new facilities and enable first quantities to be manufactured for the purpose of fiber production.

Generally speaking, the high market prices for dissolving pulp and the expected growing demand lead to the market entry of new producers or the expansion of existing factories. These market developments will be closely monitored and analyzed so that Lenzing will be able to draw the right conclusions.

Wood prices in Central and Eastern Europe are likely to move further upwards in 2011.

Business Unit Energy

The Business Unit Energy is responsible for optimally providing electricity, process water, steam and cold to all global production sites, and thus for the conceptual development of all the energy supply plants of the Lenzing Group. Fiber and pulp production are energy-intensive processes. Accordingly, the business unit's responsibility to ensure a sufficient energy supply is increasing, as is its significance for the earnings development of the Group.

Management Report 2010

During the period under review, the crude oil price stabilized at a range between USD 70.00 and USD 85.00 per barrel. Prices for electricity and natural gas declined slightly in 2010. This development resulted in a slight easing of energy costs.

On balance, Lenzing has invested a total of EUR 60 mill. in energy projects over the last three years based on state-of-the-art technologies, in order to effectively deal with the energy-related challenges it faces.

Lenzing site, Upper Austria

In 2010, several projects were carried out at the Lenzing site to further improve its energy supply. Waste air from the site's viscose fiber production has been combusted in a fluidized bed boiler since the year 1998. A second boiler linked to this exhaust air system has been able to reduce emissions even further since the summer of 2010.

A new full desalinization facility for boiler feed water was constructed and put into operation to accommodate increased production capacity.

The construction of a new evaporation plant for effluents from the pulp bleaching was completed on schedule in the fourth quarter of 2010. The new plant comprises a cost-saving investment in energy optimization. In addition, a gas-fired boiler was modernized and upgraded using state-of-the-art technology.

A new drinking water well also came on stream, ensuring a sufficient supply of drinking water at the factory.

Heiligenkreuz site, Burgenland

At the Heiligenkreuz facility the older of the two gas turbines was replaced by a new and more efficient gas turbine in 2010.

Purwakarta site, Indonesia

A new fluidized bed boiler with an attached steam turbine was installed at the plant of Lenzing's Indonesian subsidiary PT. South Pacific Viscose as part of the site's fiber capacity expansion program and was started up in 2010.

Outlook Business Unit Energy

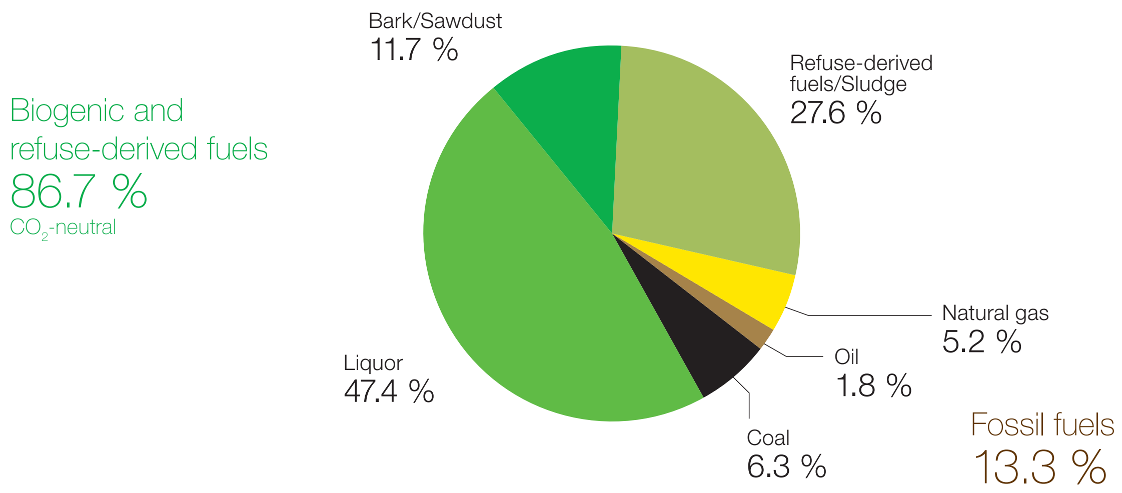
A new cold water facility for pulp production necessitated in the context of the pulp capacity expansion is under construction and should be completed by the end of the first quarter of 2011.

Energy optimization measures are planned at the Heiligenkreuz (Burgenland, Austria) site on the basis of maximizing steam extraction from the biomass thermal power plant. Construction of a new combined steam and electricity production plant is planned in Grimsby (Great Britain).

As part of its efforts to convert the Paskov pulp factory in the Czech Republic to a swing capacity pulp plant, the Business Unit Energy plans to install a recovery boiler for the combustion of liquor as well as a soda recovery boiler, construct an evaporation plant for effluents from pulp production and deploy a condensation turbine.

Lenzing AG fuel mix*

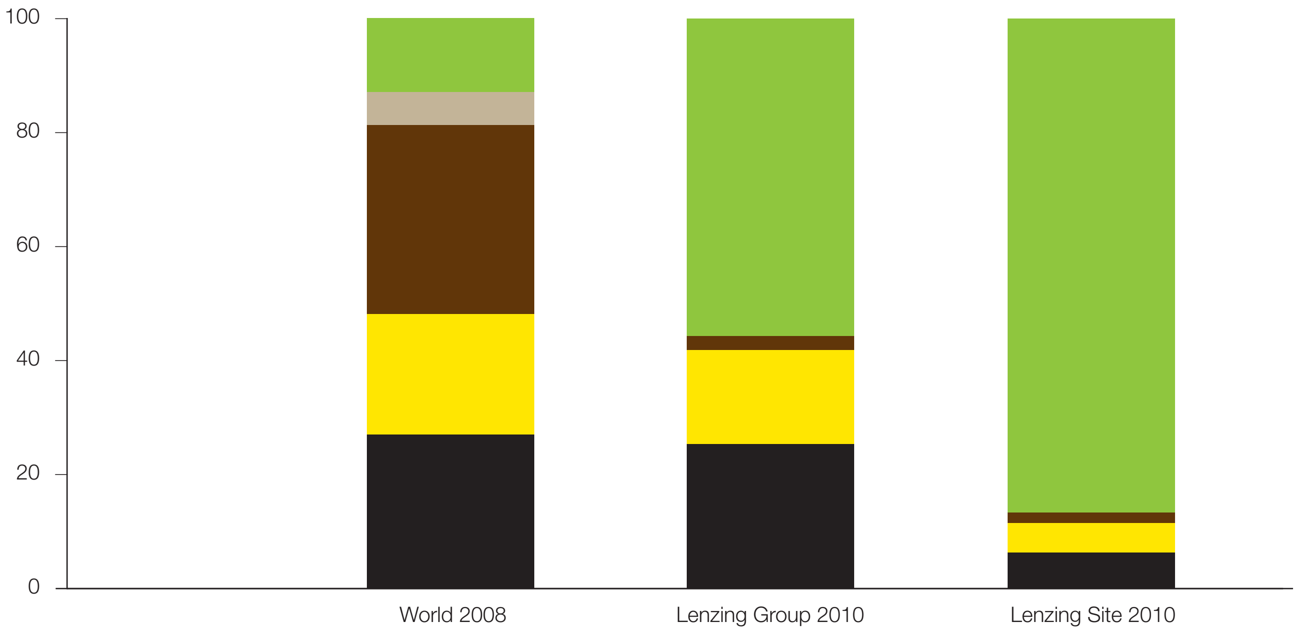
Annual fuel input (2010): 13,314,929 GJ



*) Including RVL

Comparison of energy sources

Global, Lenzing Group and Lenzing Site*



	World 2008	Lenzing Group 2010	Lenzing Site 2010
Renewable	13.0 %	55.7 %	86.7 %
Nuclear	5.8 %	0.0 %	0.0 %
Oil	33.1 %	2.5 %	1.8 %
Gas	21.1 %	16.5 %	5.2 %
Coal	27.0 %	25.3 %	6.3 %

Sources: World Energy Outlook 2010, Lenzing AG

*) Including RVL

Segment Plastics Products

The Segment Plastics Products consists of the Business Unit Plastics and the Business Unit Filaments.

Following a very difficult year in 2009, the overall economic stabilization in the most important sales markets of the Segment Plastics Products during the 2010 business year led to a significant improvement of volume demand. This particularly affected the automobile industry, but the construction sector also clearly recovered in 2010. The situation in the field of industrial packaging applications also stabilized. Demand for thermoplastics was gratifying despite rising raw material prices.

In focusing on its core business of producing man-made cellulose fibers, Lenzing made the strategic decision to seek new owners for parts of the operating units of the Business Unit Filaments. The sale was concluded on 18 February 2011.

The sales and earnings situation in the Segment Plastics Products could be improved in the past business year due to a higher order intake as well as cost optimization measures carried out in the previous year. Thus the segment succeeded in achieving an earnings turnaround.

Following a decline in the 2009 business year, segment sales recovered in 2010 and increased once again by 30.8% to EUR 144.6 mill.* Segment EBITDA improved from EUR 7.8 mill. in 2009 to EUR 13.8 mill. in 2010. This was mainly due to better production capacity utilization and thus the improved coverage of fixed costs as well as generally higher price levels. The EBITDA margin improved from 7.1% to 9.5%. The sharp price increases for raw materials could not be fully passed on to customers.

Business Unit Plastics

The Business Unit Plastics encompasses the Thermoplastics and Polytetrafluoroethylene (PTFE) business divisions.

The Thermoplastics division supplies films, technical fabrics, tapes, yarns and multilayer laminates to customers from the construction, insulation, cable and packaging industries.

For thermoplastics the year 2010 was characterized by significant price rises for all raw materials such as polyethylene and polypropylene. Lenzing was also confronted with considerable cost increases for films used in the production of complex laminates. In addition, the company had to allow for appreciably longer delivery times for many raw materials than in the previous years. The underlying reasons for this development were the overall rise in demand for raw materials and the markedly higher crude oil price.

The business development of special films for the construction and insulation sectors was positive despite the lower level of residential housing construction. However, Lenzing could not fully pass on raw material price hikes to its customers. Sales efforts for films and laminates to the packaging and cable industries still had to deal with the effects of production overcapacity on the marketplace, which kept prices at a low level despite good volume demand.

In the PTFE business division, Lenzing primarily serves as a supplier of industrial pre-products in the form of yarns, fibers and films. These are used for braided packing sets in the chemical industry and for technical and textile fabrics for industrial and medical applications as well as dental floss. Capacities in the textile architecture business were not fully utilized due to delays in project orders. Demand for braided packing sets considerably recovered during the reporting year but lagged behind for filtration materials. The functional textiles segment developed very gratifyingly in 2010, both for sports clothing as well as for paramedical applications such as beddings and garments for psoriasis patients.

*) From continuing operations

The PTFE division also had to face sharp raw material price increases in the year under review. In the second half of 2010 all suppliers implemented price increases for all powder types against the backdrop of an extreme scarcity of availability.

Outlook Business Unit Plastics

In 2011 Lenzing expects further sales increases in the Business Unit Plastics for special construction films and film laminates for the insulation industry. This sector is being promoted by public subsidies for energy saving measures and the enhanced awareness of the limited availability of natural resources. Lenzing also anticipates a positive development for special films and multilayer laminates for the packaging and cable industries as well as for PTFE films and functional textiles.

However, overcapacities and providers from countries with considerably lower production costs will once again negatively burden price levels in 2011. Therefore, the Business Unit Plastics will renew its focus on process and product improvements in the current business year. Further cost reductions and efficiency enhancement measures are designed to ensure the future competitiveness of this business unit.

Business Unit Filaments

The Business Unit Filaments encompasses business areas for monofilaments*, acrylic fiber (marketed under the brand DOLAN®) and precursors for carbon fibers. The monofilaments business area offers innovative dental care products (toothbrush bristles) as well as industrial and abrasive bristles. The acrylic fiber business area produces high quality acrylic fibers for special applications such as awnings and car tops. The precursor business area manufactures precursor materials for carbon fiber production.

Parts of the business unit were up for sale at the end of the business year.

The monofilaments business area* was able to raise sales by over 30% from the previous year. The high U.S. market share for abrasives could be maintained following an acquisition which took place in 2009. Further savings were achieved on the basis of higher recycling rates and the deployment of new technologies designed to reduce raw material costs.

The special acrylic fibers quickly recovered from the crisis year of 2009, with production operating at full capacity throughout 2010. Lenzing was able to raise its market share

*) Discontinued operations

in this segment to a new record level. A further expansion of capacity was required to meet the strong demand, which was accompanied by enhanced production efficiency. The main segments for awnings and tops for convertibles and boats took advantage of the clearly improved market conditions. High growth rates for cover fabrics used in indoor and outdoor furniture were reported again in 2010.

Technical progress was achieved at European Precursor GmbH (EPG) during the year under review. Regular operations commenced for producing standard products. However, further developmental work is necessary due to the fact that products fulfilling even higher demands already exist on the dynamic carbon fiber market.

Outlook Business Unit Filaments

Lenzing anticipates further earnings improvements in the Business Unit Filaments for the 2011 business year. The Acrylic Fiber business area should be able to benefit from the capacity expansion measures implemented in 2010 and take advantage of the positive market environment.

Segment Engineering

The Business Unit Engineering (Lenzing Technik) offers products and services in the sectors of engineering and contracting, mechanical construction and industrial service as well as automation and mechatronics.

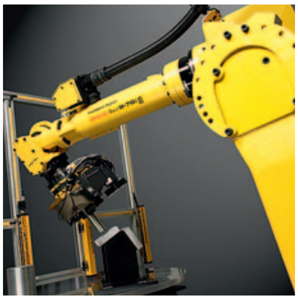
Starting at a lower level in the crisis year 2009, Lenzing Technik achieved considerable sales and earnings growth in all business areas in the reporting year. However, the high volume of sales before the 2009 decline could not be achieved again. Following a weak first quarter of 2010, the market situation improved as of the second quarter leading to a steady improvement in incoming orders and the overall order situation during the rest of the year. The Business Unit Engineering benefited from the extensive investment activity of the Lenzing Group as well as growing demand on the part of external customers.

Total sales of the Business Unit Engineering amounted to EUR 91.2 mill. in 2010, up from EUR 81.5 mill. in 2009. Of this amount, EUR 37.7 mill. (2009: EUR 29.5 mill.) can be attributed to business with external customers outside of the Lenzing Group. EBIT by segment reporting totaled EUR 7.6 mill., compared to the prior-year figure of EUR 2.2 mill. A total of 627 people were employed by the Business Unit Engineering as at December 31, 2010 (2009: 623) including trainees.

Engineering and Contracting

In the Engineering and Contracting sector Lenzing Technik offers engineering and project services as well as mechanical and special constructions for industrial customers. The sector is divided into three divisions, i. e. fiber and environmental technology, pulp technology, as well as filtration and separation technology.

The fiber technology product group is among other things responsible for the conceptual design of the Lenzing Group's



The Business Unit Engineering is a provider of products and services in the fields of engineering, mechanical construction and industrial services as well as automation and mechantronics.

fiber production plants and thus makes an important contribution to the quality and know-how edge enjoyed by Lenzing. The environmental technology product group is concerned with biological reduction processes and the elimination of waste air contaminants for industrial and communal applications.

The pulp technology division offers global consulting and engineering projects for the pulp industry. In 2010 the division made a major know-how contribution to the planned conversion of the Czech pulp producer Biocel Paskov acquired by the Lenzing Group to a swing capacity pulp plant which can manufacture both paper as well as dissolving pulp.

The filtration and separation technology division was able to defend its strong position on the global market by creating new applications and developing innovative products.

The Engineering and Contracting sector succeeded in significantly boosting sales and earnings during the year under review. Growth was achieved in the fiber technology product group on the basis of internal projects carried out on behalf of the Lenzing Group, such as the ongoing expansion of production capacities at several locations. Moreover, Lenzing Technik was able to increase sales on the Asian market in 2010 for filtration and separation technology.

Mechanical Construction and Industrial Services

The Mechanical Construction and Industrial Services sector of the Business Unit Engineering offers its expertise as a contract manufacturer for sophisticated applications. In the reporting year 2010 this business area registered good growth. The high level of investment activity on the part of the Lenzing Group as well as very strong demand on the part of external customers, especially in the second half, contributed to this development. Past investments in machinery in recent years served as the basis for expanding the portfolio of contract manufacturing services. The sheet metal technology division continued its successful growth path.

Automation and Mechatronics

The Automation and Mechatronics sector offers producer-independent automation solutions for the process industry as well as the construction of electromechanical devices and printed circuit board assembly.

Both fields – Automation and Mechatronics – succeeded in slightly increasing sales and earnings in 2010. New procurement sources and internal optimization measures were able to counteract the growing margin pressure in the Mechatronics segment.

Outlook Business Unit Engineering

The Business Unit Engineering expects slight growth for the current 2011 business year compared to 2010.

The consistent further development of existing products and services, the selective broadening of the product portfolio and sales markets as well as intensified marketing should additionally strengthen the positive business development of the Business Unit Engineering.

In order to sustainably safeguard the competitive edge of Lenzing Technik on the important Asian markets with respect to quality and know-how, a subsidiary was established in Nanjing (China) at the beginning of the new business year. This will ensure the optimal servicing of the fiber production facilities of the Lenzing Group in Nanjing. Furthermore, this step should enable the Business Unit Engineering to expand its position on the vital Chinese market.

The focus of the investments carried out by Lenzing Technik in 2011 will primarily be on product innovations in the fields of separation technology and automation, as in the past business year.

In the reporting year Lenzing Technik achieved considerable sales and earnings growth in all business areas.

Risk Report

Current risk environment

During the first six months of 2010, the risk situation of the Lenzing Group structurally improved compared to 2009. This development continued throughout the second half of 2010. Expansion projects at various sites were completed in time, whereas some are still under construction. As a consequence of these investments, Lenzing Group's competition risk has generally decreased. Furthermore, due to the acquisition of Biocel Paskov, Lenzing has essentially improved its long-term supply of pulp.

Existing tensions at various business locations, especially in Europe (Ireland, Portugal, Spain) may lead to a stronger fluctuation of exchange rates in the upcoming months – especially regarding the EUR/USD exchange rate – which in turn may result in currency exchange losses. Moreover, increasing prices of raw materials as well as a global increase of energy costs may also cause a deterioration of Lenzing Group's results.

Traditional risks such as natural disasters, environmental or fire hazards as well as to an increasing extent the risk of product liability still comprise a high risk of losses for the Lenzing Group.

Risk management

The Lenzing AG Management Board and its corporate centers carry out extensive coordination and controlling operations on behalf of the operating units of the Lenzing Group – the business units – within the framework of a comprehensive internal management and monitoring system encompassing all sites. The timely identification and evaluation of operational and strategic risks and the formulation of countermeasures are essential parts of the leadership activities of these operating units. A standardized and group-wide reporting system on a monthly basis and the continuous updating of operational and strategic plans as well as the simulation of scenarios ("What would happen if?") comprise the basis for this approach.

Lenzing's risk management system involves the central coordination and monitoring of group-wide risk management processes. The central risk management system registers and evaluates the most important risks which might potentially threaten the existence of the company and communicates its findings directly to the Management Board and the top management. This includes anticipatory analyses of potential events and close calls as well. Another task is the active mitigation of risks and the implementation of appropriate measures in cooperation with the affected departments as well as insurance companies.

Risk management strategy

Lenzing has a four-pronged approach to risk management:

1. Risk analysis pursuant to the COSO framework

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

2. Risk mitigation

Respective to the potential impact on business objectives, any evaluated risk is either minimized, fully avoided or intentionally accepted in specified situations.

3. Responsibility

Responsibility for each risk is clearly assigned to the respective management.

4. Monitoring and control

Management holds regular meetings, discusses the development of risks as defined by each category and re-evaluates them at least once a year.

The following table sets forth certain risks which the management believes to be most critical:

Critical risks		Financial impact	Probabiilty	Change from 2009
Raw materials	Price fluctuations for raw materials could result in lower product margins and trading losses.	High	High	=
Environment	Potential environmental damage could lead to personal injury and property damage, which in turn involve liabilities. General changes in environmental legislation as such.	Very high	Moderate	=
Personal risk	A lack of qualified employees, particularly in Asia, as well as the limited mobility of employees in the Group in the light of an expansion of production sites could lead to staff shortages.	Very high	High	↑
Damage to reputation	Non-compliance with standards demanded by market players as well as customer complaints could negatively affect the company's image.	High	High	↑
Pulp supply	An insufficient supply of pulp could result in production interruptions or stoppages as well as increased production costs.	Very high	Moderate	=
Market changes	Political changes in countries where investments are made could have negative effects on the cash flow and result objectives.	Very high	Moderate	↑
Exchange rate	Fluctuations in the EUR-USD exchange rate could lead to economic losses as well as valuation losses.	Very high	High	=
Innovation	Technological imitations or new technologies developed by competitors could negatively impact the company's market position.	Very high	Moderate	=
Energy	The global increase in energy needs leads to rising energy prices in the long term. In particular, production sites required to purchase energy are subject to the threat of higher gas and coal prices.	High	Very high	↑
Natural disasters	Natural disasters could result in severe personal injury or property damage and also cause production interruptions or stoppages. Changed weather conditions at the particular production sites could also lead to increasing environmental damage.	Very high	Moderate	=
Liquidity risk	Financial and economic crises could especially have a negative influence on expansion projects with respect to targeted liquidity planning and planned external borrowing.	Very high	Moderate	=
Logistics	Delays in procuring raw materials due to problems or interference with international transport routes could mean production interruptions and stoppages.	High	High	=

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The main objective of the group-wide risk management system is to raise the awareness of risks and to integrate subsequent findings into day-to-day business operations and strategic corporate development. Another objective is to exploit the opportunities that accompany risks in a foresighted manner and to achieve an optimal risk/opportunity balance for the benefit of the company.

Risk management is also embedded in strategic processes in order to be able to identify opportunities and risks at an early stage, and thus be able to exploit the market opportunities which arise.

Lenzing's globally acting market intelligence activities serve as the basis for analyzing strategic market risks in a timely manner. Moreover, risks are evaluated jointly with the heads of the business units at annual medium-term planning sessions.

Emergency management

Emergency management plans are supplemented by an emergency communications concept which structures internal and external communication approaches in the event of emergencies or breakdowns or process upsets. Real-life scenarios based on organizational work flows are an integral part of on-site training.

General risks

The global Lenzing Group is exposed to a multitude of general macroeconomic risks. Price and volume developments at the Business Unit Textile Fibers and to a lesser degree at the Business Unit Nonwoven Fibers are cyclically dependent, which is related to economic conditions on both a global and regional basis. Lenzing counteracts these potential risks on the basis of its international market presence, the increasingly specialized product portfolio, a local presence together with a top-notch network of first-rate agents and high product diversification.

Special risks

Lenzing fibers compete with cotton and synthetics on some markets. Their price development can affect Lenzing fiber sales revenues and volumes. Lenzing counteracts this risk by continuously increasing the share of specialty products with lower substitution potential in its global product portfolio as well as high quality standards combined with value-added services in the standard viscose fiber business. Due to the strong increase in demand for cellulose fibers, this situation also represents a significant opportunity for the Lenzing Group, which will be integrated into the company's ongoing growth strategy over the next few years.

Purchasing risk

Lenzing purchases large amounts of raw materials (wood, pulp, chemicals, polymers) and energy for the production of man-made cellulose fibers. Fiber and plastics production and their business margins are subject to risks of raw material availability and pricing, which may lead to an increase or decrease in supply or fluctuations to the detriment of the Lenzing Group. Lenzing counteracts these risks by carefully selecting its suppliers according to specified criteria, such as price, reliability, and quality, and on the basis of a stable, long-term customer-supplier relationship which partially features multi-year supply contracts. Furthermore, Lenzing has established long-term contractual relationships with a number of its raw material suppliers and service partners (and only with a limited number of its customers). These agreements require Lenzing to buy pre-defined quantities of raw materials at standardized terms and conditions, which may also include price adjustment clauses. As a consequence, Lenzing may not be able to change the price, delivery volumes or other terms of its contracts in the short term in order to be able to appropriately respond to a changing business environment. This risk is exacerbated because most of the Lenzing Group's sales are based on short-term contracts. Lenzing's energy strategy is directed at maintaining a maximum degree of self-sufficiency combined with hedging against price volatility.

Operational and environmental risk

The production of cellulose fibers involves a complex series of chemical and physical processes which entail particular environmental risks. These risks are well managed on the basis of specially-developed, proactive and sustainable environmental management, closed production cycles and the continuous monitoring of emissions. For decades the Lenzing Group has been using production facilities for industrial purposes at several different locations. For this reason, risks relating to environmental damage caused in the past cannot be fully excluded (see note 34). Although the Lenzing Group sets high technical and safety standards for the construction, operation and maintenance of its production facilities, the risk of operational disruptions and accidents cannot be eliminated completely. Such disruptions may in particular result from external factors beyond the Lenzing Group's control, for example natural disasters such as hurricanes, earthquakes and floods from which immediate safeguarding is not possible. In addition, there is a risk of personal injury, damage to third-party property or to the environment which may lead to considerable claims for damages and even criminal liability. The Lenzing Group has focused a substantial portion of its production at only a few locations. Any operational disruptions at one of these locations, for example in Lenzing (Austria) or in Indonesia, its two largest sites with respect to overall capacity, would affect a substantial amount of its business activities.

Sales risk

Lenzing is a niche player in all its business areas and derives a significant portion of its revenue from a relatively small number of major customers. Sales losses caused by major clients (including reductions, delays, modifications or cancellations of purchase orders) or the loss of one or more major customers combined with the failure to attract new customers constitute a risk which Lenzing counteracts by way of its global presence and the continuous broadening of its client base, sales segments and sales markets.

Exchange rate risk

The international business of the companies of the Lenzing Group subsidiaries exposes them to exchange rate risk. In particular, this relates to both transaction risk and currency translation risk arising from EUR/USD exchange rate fluctuations. This risk is largely limited by prospective hedging of the expected net exposure on an annual basis. Please refer to note 36.4 for details.

Competition and innovation 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. The Lenzing Group could lose business to its competitors, in particular, if it is unable to offer competitive pricing, if its products do not meet customer specifications and quality standards or if its customer service fails to satisfy customer expectations. Lenzing reduces this risk on the basis of a disproportionately strong focus on research and development, a high product innovation rate and active technology screening. The Lenzing Group and other producers of man-made cellulose fibers face the risk that acceptable or even superior alternative products may become available and may be less expensive than man-made cellulose fibers. The Lenzing Group counteracts this risk by continuously increasing the share of speciality products with lower substitution potential in its global product portfolio.

The fiber for those who care

People who care for others the same way they do for themselves demand the highest purity in tender and delicate areas of the body. Our soft and pure fibers are outstandingly suited for sensitive applications. Boasting natural moisture absorption properties, Lenzing fibers are the cellulosic origin of the best caregivers.

Nonwovens

Quality to satisfy tough demands. The quality of a product mainly depends on the raw materials used. Based on the renewable natural resource wood, Lenzing Viscose® and TENCEL® fuse natural purity with high functionality. Lenzing fibers are versatile and can be integrated into the most demanding products. The areas of application range from hygiene to medicine to technology – a naturalness to convince anyone.

Management Report 2010

Risk related to the expansion of production capacities

The Lenzing Group has grown, and plans to continue to grow its business by expanding both its production capacity and its product offerings and applications, especially in Asia. In addition, the Lenzing Group aims at sourcing more dissolving pulp from its integrated pulp mills. Production facilities in the man-made cellulose fiber industry require large upfront investments as well as investments on an ongoing basis. The Lenzing Group's business may be impaired if it cannot fund and otherwise successfully implement planned expansions of production capacity. Even if the Lenzing Group can obtain adequate financing, adverse economic or legal conditions, strong competition or an insufficient supply of raw materials (in particular pulp) may prevent the Lenzing Group from realizing its expansion plans. The Lenzing Group also faces the risk that market demand may prove insufficient to justify the full utilization of its expanded capacity, which could potentially result in increased operating expenses in the Lenzing Group compared to its revenues.

Use of financial instruments

Clearly-defined, written guidelines developed by the Management Board exist for the treatment of financial risks, and are being continually monitored and evaluated. The Lenzing Group makes use of derivative financial instruments in order to protect itself against exchange rate risks associated with business operations, mainly resulting from sales in US dollars. These derivatives comprise foreign currency forward contracts. The objective of exchange rate risk management is to protect payment flows from business operations against adverse exchange rate fluctuations. Hedging activity as well as the correlation between risk and hedging instruments are continuously monitored and reported. There is an active exchange of information between management, treasury and the affected business units.

The risk of loss with regard to these instruments is monitored on a regular basis and is rated as relatively small, taking into account the financial strength of the contractual partners.

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

The risk of changes in the market value of primary financial instruments and their derivatives is rated as relatively small. To the extent that this risk is related to exchange rate risks, it is covered by foreign currency forward contracts. No increased volatility until maturity is expected for short-term financial instruments. 54.55% of the company's long-term liabilities are linked to variable interest rates.

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

Cash flow risks related to financial instruments arise from fluctuations in their respective payment flows. These are essentially limited to variable interest rate liabilities. Corresponding hedges ensure that exchange rate fluctuations will not affect payment flows. On principle currency translation risks are not covered but are being continuously monitored.

If growth is below Lenzing Group's current projections, sales volumes and prices would likely fall short of the Group's targets, adversely affecting sales, net profit or margins.

Financial risk

The Lenzing Group requires extensive financial resources to implement its business plan and its growth strategy. Due to tighter credit markets and declining equity markets the availability, terms and cost of capital may adversely be affected. Such developments may lead to an impairment of the Lenzing Group's ability and that of its customers to refinance existing borrowings or obtain new financing or credit. Serious economic downturns like the one in 2008 also result in tighter credit markets and declining equity markets. Decreases in demand or prices on global markets in the future resulting from an economic downturn could have a material negative effect on the Group's business activities, financial health and earnings.

Insurance

All of Lenzing's tangible assets and investments are insured with internationally renowned insurers against loss resulting from unforeseeable events such as fire, explosion, natural disasters and the resulting business interruptions. The company's policy is to bear "frequency losses" itself and to obtain sufficient coverage in the event of a major loss. However, the Lenzing Group's insurance coverage may not be sufficient. A continuous update on insurance cover and regular risk surveys are being implemented in coordination with the various sites.

Possible losses of accounts receivable are in principle covered by a global credit insurance policy.

Report on Essential Elements of the Internal Control System (section 243a, paragraph 2 of the Austrian Business Code – UGB)

The internal control system of the Lenzing Group is defined as the process of monitoring and controlling efficiency and cost-effectiveness of business operations, the reliability of financial reporting and compliance with relevant legislation. The process is to ensure that business goals will not be compromised.

In principle, the monitoring of the efficiency of the internal control system encompasses all aspects of company-wide risk management, financial reporting, corporate strategy, business processes and corporate compliance with prevailing laws and regulations.

The organizational structure and process organization of the Lenzing Group defining operational procedures comprise the main basis for the overall control environment and the internal control system.

With respect to the organizational structure, competencies and responsibilities are clearly assigned to the different management levels of the company, including all its Austrian sites and international subsidiaries. Essential corporate functions are centralized in corporate centers, which reflects the Group's global market presence as well as its decentralized business and site organization. The respective management is responsible for coordinating and monitoring business operations on a national level.

The process organization of the company is a pre-defined and comprehensive set of guidelines as the basis for a strong control environment and control system. The Mandates of the Lenzing Group define essential group-wide approval processes and competencies. The management of the respective business unit or corporate center is responsible for monitoring compliance with the respective regulations and controls.

The corporate center Risk Management and Internal Audit is in charge of risk management and internal auditing. The company has established a clearly-structured risk management process. It meets international standards and includes the identification and assessment of risk as the fundamental elements of risk control (please refer to the risk report for more details).

The essential elements of the reporting and management information system of the Lenzing Group are: the gathering of data and analyses by means of a centralized system and the preparation and dissemination of regular reports. Supply of information in a timely, reliable and correspondingly structured manner combined with the possibility to carry out deviation analyses comprise a central control instrument for the company's management.

The corporate center Global IT manages information technology within the framework of a group-wide IT strategy, ensuring a strong control environment. Individual systems and operational processes are carefully monitored by annual audits and special audits carried out on a case by case basis.

Global Finance is centrally responsible for financial reporting, thus ensuring a clearly-defined structure and designated responsibilities. Preliminary processes are subject to comprehensive regulations.

A comprehensive set of regulations and guidelines detailing the way control functions are exercised has been developed and implemented. Lenzing is determinedly moving ahead with its efforts to globally install a unified IT system (SAP) at its main locations.

Due to its direct access to the company's assets, the treasury and payment department is considered to be a highly sensitive area. Correspondingly, comprehensive regulations and instructions have been developed to take account of the enhanced need for security. These clear guidelines stipulate the strict application of the four-eyes-principle for implementing transactions and reporting to the central treasury department. Internal auditing is responsible for monitoring the use of and compliance with controls in day-to-day business operations.

The responsibility for human resources is shared by the corporate center Global Human Resources and the local, national sites. Globally applicable guidelines for human resources processes and their continuous analysis and monitoring by the corporate center provide for the central control and management of human resources issues. Essential tasks, such as job and staff assessments or career planning, are centrally coordinated.

The corporate center Legal Management is responsible for dealing with legal issues, in particular for those which go beyond standard business processes.

The corporate center Corporate Communications is responsible for corporate communications and investor relations as well as for external reporting and communications.

Financial Position and Liquidity

The Lenzing Group meets its payment obligations in a timely manner. Current payments are covered by the cash flow from operations. The company enjoys a solid liquidity and equity base and a sound financial position. Moreover, sufficient committed lines of credit have been made available by various banks which Lenzing can take advantage of for financing purposes at any time.

As at 31 December 2010, the Management Board of Lenzing AG in its capacity as the top management of the Lenzing Group is not aware of any risks that could endanger the continued existence of the Group during the 2011 business year.

Research and Development

Lenzing has been setting the standards in the cellulose fiber industry for decades. This position of technological leadership – manifesting itself in a stream of innovations – is based upon the research and development carried out at an intensive pace. An important focus of these activities was on innovations yielding new applications for fiber products. The ongoing process development in viscose, modal and lyocell fibers as well as pulp technologies enables the Lenzing Group to further extend its lead over competitors.

The research and development center located in Lenzing employs an internationally renowned team of some 150 experts focusing on state-of-the-art developments in the fiber business. The ongoing cooperation with external research institutions and university facilities serves as the basis for an exchange of ideas and expertise with different specialists.

The research and development activities of the Lenzing Group are integrated into the operations of the individual business units, ensuring product development oriented to market requirements and customer needs. “Time to market” is a key indicator used in managing operations in the B2B area.

Expenses for research and development in the 2010 business year (calculated according to the Frascati* method) came to EUR 22.7 mill. (2009: EUR 19.9 mill.).

In 2010, process innovation in pulp production was shaped by the acquisition of the Biocel Paskov pulp plant. One priority of the R&D work was carrying out laboratory tests to enable the compilation of basic data needed to make the investment decisions underlying the long-term emphasis on manufacturing dissolving pulp. An additional focal point was the rapid development of a technology permitting the production of small amounts of fiber pulp prior to the completion of the investment program.

Once again process innovation activities for fibers concentrated on optimizing the production processes for lyocell and viscose fibers. The running characteristics of Lenzing Viscose® were further optimized for application on air-jet machines.

TENCEL® displays a wide range of useful features, for example when used as TENCEL® powder incorporated into mattress foam to improve moisture management. In cooperation with partners, corresponding products were prepared to be launched on the marketplace.

Other potential application areas of TENCEL® powder are as plaster (used in the construction industry), in fiber-reinforced plastics, and as a replacement for fiberglass incorporated into injection molded parts.

A further new area of application for TENCEL® fibers is in upholstery fabrics used in homes and in hotels. TENCEL® has

*) Excl. the research premium

Management Report 2010

enabled the fabric to achieve excellent utility values (abrasion resistance), which are far superior to those of cotton. The specialty fiber TENCEL® C was also developed to market maturity. It features the application of chitosan, a natural raw material extracted from the shells of crustaceans, to the fibers. This process improves the already outstanding skin-friendliness of TENCEL® fibers.

The positioning of Lenzing Modal® as the softest fiber was enhanced by the development of the specialty fiber MicroModal® AIR. With a diameter of 0.8 dtex MicroModal® AIR, which is four times as soft as cotton, is the lightest and most supple fiber used on the lingerie market.

Based on Lenzing FR®, the heat protection fiber widely-known on the market, Lenzing developed the innovative Lenzing FR® BLACK fiber. Incorporating black dye, Lenzing FR® fibers offer numerous advantages to textile processors and wearers of protective clothing.

The development activities undertaken by the Business Unit Nonwoven Fibers focused on the identification of new areas of application and markets, the creation of new fiber types, the screening of technologies used in the manufacturing of nonwovens as well as on exploring the potential of Lenzing fibers.

The running characteristics of Lenzing Viscose® were optimized for their application on high-performance Spunlace* machines.

The largest development project currently being undertaken in the nonwovens area is TencelWeb®. This new technology enables the production of TENCEL® nonwovens from very fine filaments directly from the spinning solution. These filaments feature a large share of microfibers and a low weight. This innovative nonwoven was further optimized in cooperation with key customers. The nonwovens are to be incorporated into hygiene products and filter media.

The outstanding moisture management of TENCEL® is the basis for healthy sleep. Due to this feature TENCEL® is the best solution for mattresses, pillows and blankets.

*) Hydroentanglement

Other research projects involved the development of products for wound treatment, a segment in which TENCEL® in gel form is used as a wound dressing. TENCEL® is also used as a replacement for the cotton incorporated into such well-established products such as gauze and cotton wool.

The Segment Plastics Products once more focused on the development of biodegradable materials and the further development of high-diffusion roof underlinings during the year under review. Lenzing also participated in a tender involving "Energy 2020". This took the form of submitting bids in the areas of solar thermal and photovoltaic energy along with partners from the academic and business communities. The objective of this participation was the forging of contacts in the important future market for renewable energy.

Environment and Sustainability

Sustainability in the Lenzing Group

The Lenzing Group is committed to the fundamental principles of sustainable development. For Lenzing, operating profitably is equally important to safeguarding the ecological basis of life and achieving a social balance. The cornerstones of sustainable business operations are the long-term, competitive creation of value in production as well as the preservation of natural resources, social responsibility and a human-friendly working environment. In this way, the company fulfills its obligation to society on behalf of all interest groups in the spirit of "shared values".

For the last quarter of a century, the Lenzing Group has pursued forward-looking environmental policies, encompassing the responsible, foresighted and prudent use of available natural resources as the main criteria underlying its operations. Lenzing takes environmental considerations into account in all of its decisions and investments. New materials are evaluated with respect to their environmental compatibility and new products are also already subject to ecological compatibility tests in the planning phase. Sustainable thinking and acting are part and parcel of the way all business areas in the Lenzing Group operate. As a future-oriented company, Lenzing takes a holistic view guided by the principles of sustainable development.

Lenzing's product portfolio is almost exclusively comprised of products manufactured from renewable raw materials with a high material utilization. The priority is achieving an ecologically exemplary form of production and highly efficient energy generation. Closed cycle operations and optimized production processes enable the complete use of Lenzing's main raw material wood as well as the generation of valuable by-products.

Management Report 2010

As an internationally operating company, the Lenzing Group always acts in accordance with the prevailing laws and regulations in each country in which it is active. It also shows due respect for the natural environment and culture of each region, and strives to understand and appreciate the special features of the respective host country. The guiding principles underlying Lenzing's corporate philosophy also include social responsibility and ensuring healthy and humane working conditions. Considering the fact that employees comprise the basis of corporate success, they are offered interesting and challenging work with the opportunity to develop their professional skills and advance their careers against the backdrop of a fair and secure working environment.

The Lenzing Group is actively implementing its three-tiered sustainability strategy at all its facilities. For Lenzing, thinking and operating sustainably also entails the cultivation of long-term partnerships based on trust. For example, a total of EUR 25,000 was donated to the forest enterprise Bakonyerdö in Hungary at the end of 2010. Active and retired employees of this important and longstanding partner of Lenzing were massively affected by the poisonous sludge disaster which took place at the beginning of October 2010. Lenzing's donation was for the benefit of these employees and their families, and helped them cover their most urgent needs in the aftermath of this catastrophe.

Lenzing's commitment to sustainable operation and societal balance is also demonstrated by monetary donations as well as its longer-term partnership with Humana People to People. The association, whose source of funding is the sale of second-hand clothing, also creates new jobs and funds development projects. Humana's work on behalf of textile recycling and thus for the sustainable use of textile raw materials makes it the ideal partner for Lenzing, the global innovation leader in the production of man-made cellulose fibers. In 2010, donations targeted "Tubatse", a community development project in the Tubatse, Limpopo mining area of South Africa. The funds contributed to the construction of basic social facilities such as a community center as well as other developmental activities, including support for educational projects.

Top left: Based on its longer-term partnership with Humana People to People, Lenzing supports a development project in the Tubatse, Limpopo mining area of South Africa by co-financing the construction of a community center, which, as a basic social facility, will offer developmental activities, including support for educational projects.

Top right: Donation for the population affected by the poisonous sludge disaster at the beginning of October 2010.

Bottom: Free health care services for the inhabitants of the neighboring village Desa Cicadas in Purwakarta, microcredits for small farmers and firms, scholarships and the construction of roads: PT. South Pacific Viscose invests a lot in good community relations..

REACH, awards and activities

In 2010 the Lenzing Group registered five products and three intermediates under Europe's REACH (Registration, Evaluation and Authorisation of Chemicals) regulation. The objective of REACH is to enhance the protection of people and the environment and simultaneously improve the competitiveness of European industry. Considerable expenses were necessary to fulfill all the requirements imposed by this European regulation. A further major focal point of these activities involved the related extensive communications work.

During the year under review, Lenzing's fiber production plant in Nanjing (China) was awarded the EU's Ecolabel. This European-wide environmental label initiated in 1992 and bearing the "European flower" as its symbol is conferred upon environmentally-friendly products. It also attests to the ecological and technological leadership of Lenzing's fibers. Lenzing is the first fiber manufacturer to be awarded this environmental certificate of the European Union. The demanding standards imposed by the EU's Ecolabel were fulfilled at all of the Group's fiber production facilities in Europe and in Mobile, Alabama (USA). Now the certification of Lenzing's most recently opened Asian facility in Nanjing represents a very special achievement.

A major globally operating customer of Lenzing in the Business Unit Nonwoven Fibers granted Lenzing its Environment, Health and Safety Supplier Award.

During the reporting year Lenzing launched the "Sustainability Initiative", intensifying its activities aimed at further systematizing its internal sustainability efforts.

The life cycle assessment designed to comprehensively evaluate the sustainability aspects of Lenzing fibers was drawn up in cooperation with Dr. Martin Patel and Li Shen of the Copernicus Institute of the University of Utrecht. The results of this ecological audit were scientifically published in 2010 as part of the "Lenzinger Berichte" series. This life cycle analysis showing the sustainability performance of Lenzing fibers compared to cotton, polyester and polypropylene aroused considerable interest on the part of experts and customers.

Certifications

Certifications provide business partners and customers with confirmation of Lenzing's adherence to the corresponding quality, environmental and safety standards. They also represent a crucial indicator illustrating the status of an organization with respect to its systems and products. For years the Lenzing Group has been continually developing its management systems. In the year under review Lenzing consistently maintained its system certifications such as ISO 9001, ISO 14001 and OHSAS 18001.

Lenzing achieved significant progress in connection with the certification for wood. In January 2010, all of the company's facilities with the exception of the Lenzing site in Upper Austria were awarded the Forest Stewardship Council (FSC) Chain of Custody certification. Founded in 1993, the FSC is an independent, global non-profit organization consisting of environmental organizations, representatives of indigenous peoples along with companies in the forest and timber industry. It certifies the responsible, socially-just and environmentally-compatible cultivation of forests. In this way, Lenzing can be assured that only wood from sustainable forests is used in its fiber products.

Moreover, all of the nonwoven fibers produced at the Lenzing site were conferred the PEFC (PEFC = Programme for the Endorsement of Forest Certification Schemes) certificate. It confirms that only wood derived from ecologically, economically and socially sustainable forests is used along the entire processing chain for Lenzing's nonwoven fibers.

Certification in the Lenzing Group

	ISO 9001	ISO 14001	OHSAS 18001
Lenzing	✓	✓	✓
Heiligenkreuz	✓	✓	✓
Grimsby	✓	✓	✓
Mobile	✓	✓	✓
Purwakarta	✓	✓	✓
Nanjing	✓	2011	2011

Environmental protection at the Lenzing site

During the year under review, Lenzing further expanded upon the continuing increase in its fiber and pulp production achieved in previous years. This dynamic growth requires the ongoing development and adaptation of its environmental protection efforts for the purpose of minimizing emissions. The environmental protection facilities operated by Lenzing's Environmental Protection at the Lenzing site carried out the measures required to successfully deal with the higher output.

In 2010 Lenzing completed the expansion of the ash disposal site in Obereck, which was subsequently inspected by public authorities. By providing the legally required security deposit, the Lenzing plant now has a residual waste landfill at its disposal which fulfills the stipulations contained in Austria's Landfill Ordinance of 2008. This site provides a measure of security for the company ensuring the proper intermediate storage and dumping of incinerated ash.

Furthermore, Lenzing successfully tested its capabilities installed in 2009 enabling the combustion of sulfur-containing waste gas emissions arising from the fiber plant to be treated in the 1K7 fluidized bed boiler. In addition to the combustion of the exhaust gases in the RVL facility, Lenzing now has a further means for treating the waste gas emissions while reducing unpleasant smells.

In 2010, the Lenzing Testing Laboratory for Ecological Analysis (UAL) was able to maintain and even expand upon its high-quality laboratory services in the field of wastewater and waste analysis and ecotoxicological tests. The annual audit commissioned by the accreditation authority gave very high marks to the technical competence of the testing center.

The successes achieved in the area of environmental protection at the Lenzing site during the reporting period included the successful completion of all official environmental procedures as well as the further expansion of the local wastewater purification facility.

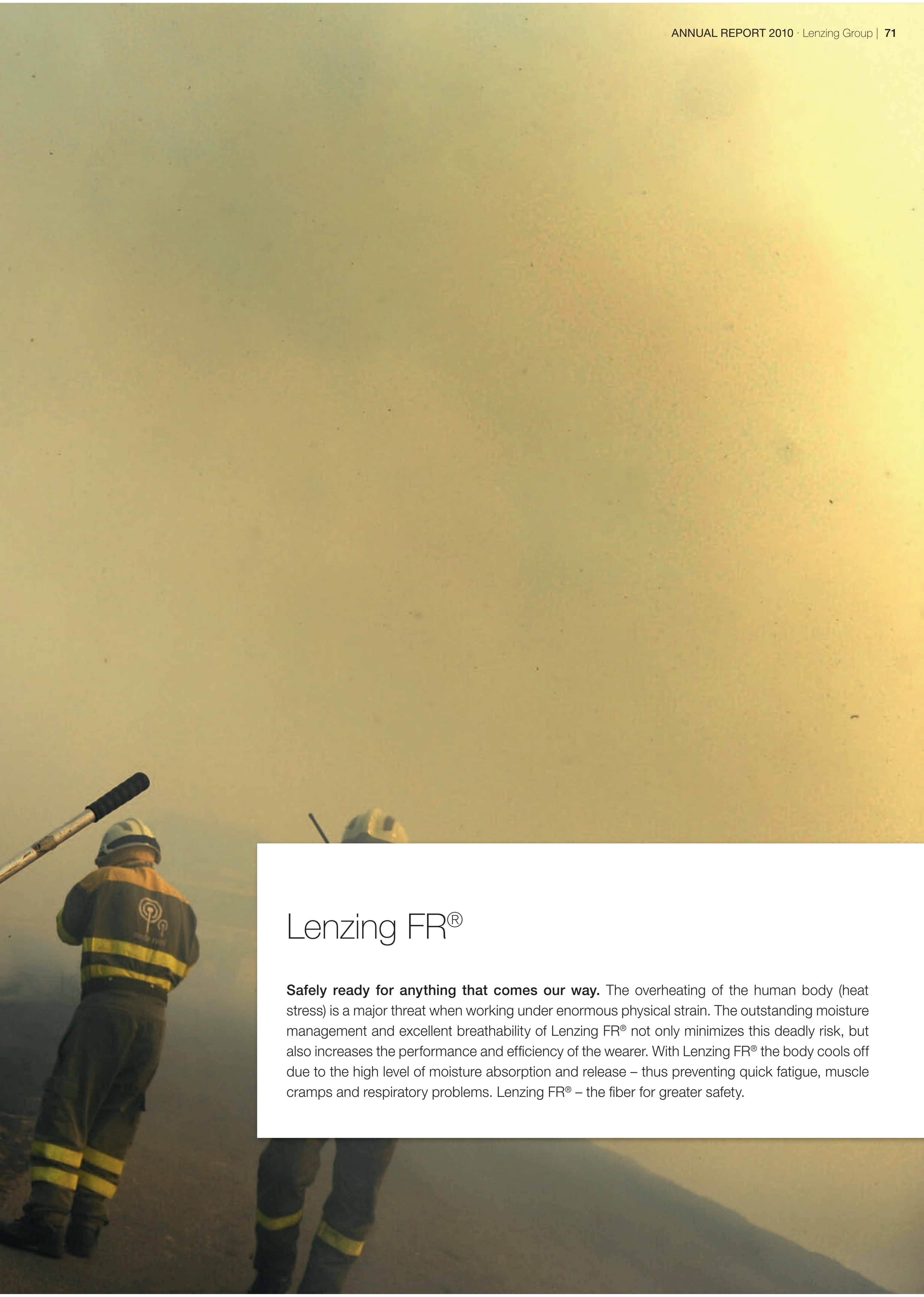
A fifth anaerobic reactor and related ancillary facilities were installed at the wastewater treatment plant operated by the "Wasserreinhaltungsverband Lenzing – Lenzing AG". Moreover, the anaerobic facility was enlarged to enable a two-track mode as a way of optimally adapting the plant to future requirements. The project served to enhance the performance of the biological sulfate removal system as well as to reduce the level of organic contaminants, whereas the two-track mode also increases operational reliability.

The Lenzing site also carried out planning work to improve the hydraulic capacities of the aerobic wastewater treatment plant based on the construction of a new intermediate clarifier basin and expansion of the filter facility which also encompasses eliminating any bottlenecks in the field of sewage engineering. Construction on expanding the hydraulic capacities of the treatment plant began during the year under review.

The public authorities responsible for monitoring compliance with water protection codes approved the facility expansion measures as well as the increased production capacities for pulp and viscose fibers. In addition, a decree issued by the Federal Province of Upper Austria which has jurisdiction over this area determined the amount of water which the Lenzing plant is entitled to use in operating the sewage treatment facility. Authorities also stipulated the permissible heating load level and wastewater volumes which could be fed into the Ager River. Thus Lenzing has successfully gained the legal certainty it requires, at least until 2015.

The fiber for those who dare

Dangerous working conditions require special protection. Fire and heat are powerful forces which can only be withstood by extraordinary fibers. Produced from the raw material wood, Lenzing FR® offers protection and wearing comfort. Heat stress and heat stroke, frequent consequences of extreme situations, are prevented – thanks to the functional properties of Lenzing FR®.



Lenzing FR®

Safely ready for anything that comes our way. The overheating of the human body (heat stress) is a major threat when working under enormous physical strain. The outstanding moisture management and excellent breathability of Lenzing FR® not only minimizes this deadly risk, but also increases the performance and efficiency of the wearer. With Lenzing FR® the body cools off due to the high level of moisture absorption and release – thus preventing quick fatigue, muscle cramps and respiratory problems. Lenzing FR® – the fiber for greater safety.

Human Resources

The sustainable success and development of any company is essentially determined by its well-trained and motivated employees. The Lenzing Group to a great extent owes its leading market position and edge in technology to the commitment, creativity and qualification of its staff. That is why Lenzing is continuously improving its programs for further training and enhanced work climate.

The training center at Lenzing in 2010 again offered numerous courses for furthering the competence and skills of its staff. The sites in Asia, too, offered seminars on personal development, complementing vocational training.

The International Foundation Program, a senior management program offered at the sites in Europe, was adapted and extended to the sites in Asia.

At the Lenzing site, the already well established and highly successful Fiber Academy was developed further. In 2010 this modular introduction to the world of fibers was adapted to global implementation at all sites. The program includes the teaching of subject knowledge ranging from raw materials, production and processing in the textile chain right up to global marketing. The Academy will be launched globally at all sites in 2011 and will then include the training of trainers, to teach colleagues and customers from all locations.

In the reporting year, the group-wide performance management process for optimized planning and assessing staff development was continued and expanded. The initial phase of the so-called "360° Feedback[1]" process was concluded. The program now involves about 100 managers in leading positions who received valuable feedback from co-workers, colleagues and line managers. A follow-up program will be started in 2011.

Moreover, the "360° Feedback" process yielded valuable insight into the scope for further improving skills and competence at the management level. Following numerous requests, group-wide coaching will be initiated in 2011 to further improve management's ability to support their co-workers in developing skills and abilities.

The group-wide development program for managers was further extended and is to be continued due to its pronounced success. A group of junior managers will be offered the opportunity to participate in training modules offered at the company's international sites.

Rise in staff due to acquisition and capacity expansion.

At the reporting date, 31 December 2010, the Lenzing Group[2] employed a total staff of 6,530 (end of 2009: 6,021). This significant increase is a result of the acquisition of the pulp factory Biocel Paskov in the Czech Republic, as well as of recruiting staff for the construction of the new viscose fiber line in Nanjing (China).

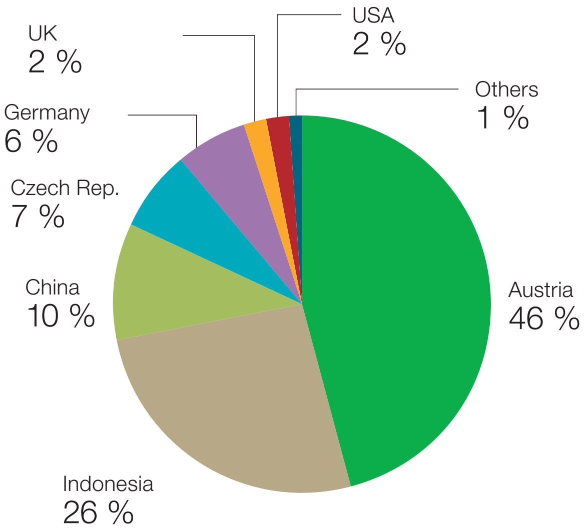
The Group's biggest site at Lenzing itself at the reporting date employed a staff of 2,866[3] (end of 2009: 2,813) at its companies Lenzing AG, Lenzing Technik, Lenzing Plastics, Leno and BZL. Of these, 177 were trainees (2009: 162), as Lenzing knows about the importance of well-trained skilled labor and is therefore very serious about its responsibility as a provider of vocational training. The increase in trainees underlines Lenzing's significance for the regional labor market as one of the most important employers in Upper Austria.

An additional 22 trainees received vocational instruction and training at Heiligenkreuz (Austria), Affolterbach and Munderkingen (Germany) and Grimsby (Great Britain).

1) Feedback from employees, colleagues an managers 2) Including discontinued operations 3) Including trainees, excluding leased labor

Staff by country

Lenzing Group Headcount 31/12/2010: 6,530*



The Lenzing Group to a great extent owes its leading market position and edge in technology to the commitment of its staff.

*) Including trainees, excluding leased labor

Management Report 2010

The Lenzing Group is aware of its responsibility for the safety and health of its employees. A particularly successful offering is the Lenzing Health Days. On balance, 1,500 participants have already taken part in this campaign to date. In 2010, 190 employees took advantage of the opportunity to deal under medical supervision with issues such as exercise, nutrition and relaxation.

Safety and Health

The new corporate center Global Safety, Health and Environment (SHE), established in the summer of 2009, delivered first results: The first group-wide SHE conference was held in July 2010 at which all SHE managers of the Group convened to define focal issues, with a special 2010 emphasis on fire protection.

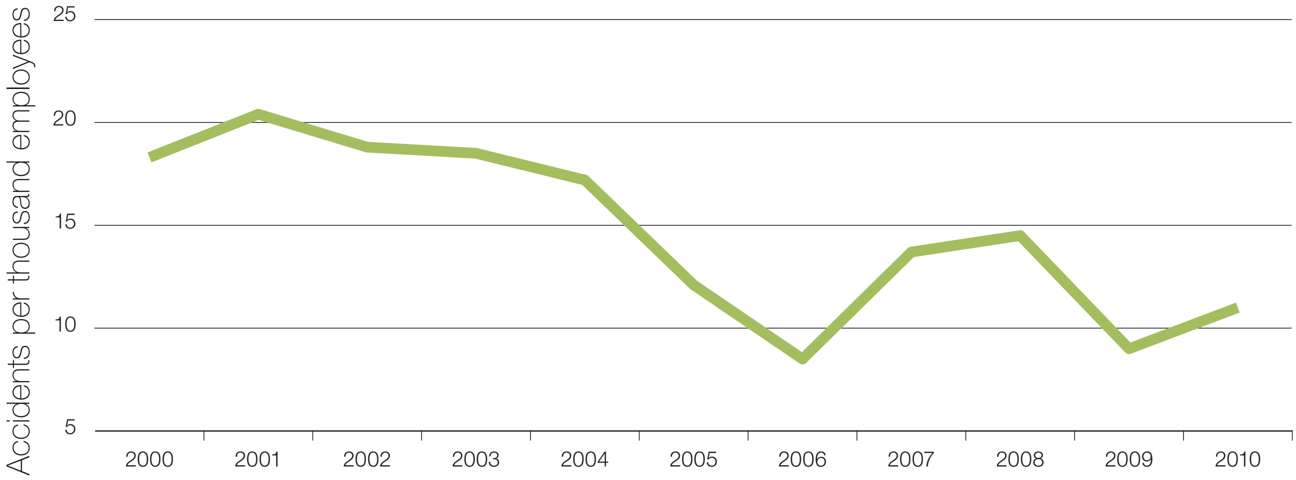
An external expert focused on the fire prevention situation at the viscose fiber sites in Asia and at the Lenzing site itself, providing a critical appraisal. Approaches to improvement were identified, evaluated and defined in an agenda in close cooperation between corporate centers Safety, Health and Environment (SHE), Risk Management and the company's insurers. An ambitious program is scheduled for 2011, including benchmarks for quantifying safety at work. The company's safety standards are to be checked, revised and well communicated. These measures will enable the Lenzing Group to ensure its leading position as the viscose fiber producer with the highest global safety standards. Lenzing's SHE managers will exchange insights gained at the second SHE conference scheduled for June 2011.

Safety

In the reporting year, the rate of injuries per 1,000 employees was kept at a low level, in line with previous year's figures.

Lenzing Group: Development of injury rates

2000–2010



Health

The Lenzing site again offered well-attended health programs, such as Health Days, spinal exercise courses and quit-smoking seminars. These were developed further with the support of the occupational physicians at the health center.

The trainee health project started in 2008 was continued. Every trainee at the beginning of a vocational year receives a health pass with mandatory and voluntary health modules and offers. These offers met with positive response and the services provided were well booked, as every year.

The health management program implemented in the past years was consistently continued. In addition to numerous health promotion initiatives, Lenzing's Health Days were again successfully held. Since their start, 1,500 employees have made use of the offers provided. In the reporting year, 190 participants got involved with issues such as physical exercise, nutrition and relaxation techniques under the guidance of an expert trainer and an occupational physician in the course of a four-day seminar covering theory as well as practical application.

Management Report 2010

Corporate Communications

For the Lenzing Group as a global enterprise quoted on the stock exchange, continuous and transparent communication is exceedingly important. Current external communication with all stakeholders and an open information policy with its staff are an essential feature of the corporate culture of the Lenzing Group.

At the Group level, the communication process is controlled by its corporate center Corporate Communications which is responsible for operative communication with investors and for ensuring competent public relations.

Investor Relations

The Lenzing share is quoted on the Standard Market Continuous of the Vienna Stock Exchange. The share capital of Lenzing AG is EUR 26,717,250.00. It is divided into 25,725,000 individual and equal share certificates. B & C Industrieholding GmbH, Vienna, jointly with its subsidiary B & C Lenzing Holding GmbH, is the majority shareholder with a total of 90.54% of the voting rights. The holding company considers itself a key shareholder of Lenzing AG with a long-term perspective.

The Lenzing share started into 2010 at a price of EUR 35.71* and ended the year two-and-a-half times higher at EUR 87.00, performing significantly better than the Viennese lead index ATX. With a share price increase of 143.6% the Lenzing share in 2010 ranked among the five top performers of the Viennese Prime Market and the Standard Market Continuous.

Share split

The extraordinary shareholders' meeting of Lenzing AG, held on 10 December 2010, approved a resolution to re-divide the company's nominal capital by means of a seven-for-one share split. The number of share certificates thereby grew by 22,050,000 no-par shares, from 3,675,000 no-par shares to 25,725,000 no-par shares in bearer form. The share split provided the shareholders with six additional no-par shares for each no-par share. The Lenzing share started trading at its new denomination at the appointed date, 28 December 2010.

The share split was considered necessary as a consequence of the strong rise of the share price in order to improve the share's tradeability. Moreover, the company thereby met a long-standing request of private investors.

Resolutions on authorized and conditional capital

Moreover, the shareholders with 99.9% of the vote resolved upon the creation of authorized capital for issuing new shares against cash or contribution in kind, as well as the creation of conditional capital to issue convertible bonds, both with the authorization for the management board to exclude shareholders' subscription rights under certain conditions with the approval of the supervisory board. These resolutions provide Lenzing AG with a high degree of flexibility in supporting the future growth of the company.

Lenzing bond issue

Lenzing AG in the reporting year successfully placed a seven-year corporate bond with a coupon rate of 3.875%. The offer was oversubscribed fourfold. Approximately 75% of the total volume went to private Austrian investors due to strong demand from this group. The considerable interest shown by private and institutional investors can be considered as proof of Lenzing's position as a successful and dynamic Austrian industrial enterprise. In the course of two well-attended road shows in Vienna and Linz, the bond issue provided the opportunity of informing select private investors on Lenzing as a company in greater depth.

*) Adjusted to the seven-for-one sharesplit of 28/12/2010, opening price 04/01/2010: EUR 250.00

Lenzing will use the additional financial means of EUR 120 mill. for optimizing the company's current financing portfolio, strengthening its financial power and refinancing existing financial liabilities, as well as for financing new projects, such as developing and extending established business activities.

The Lenzing share has been listed on Austria's sustainability index VÖNIX already since 2005 and the company again met its stringent requirements in the reporting year. The index includes Austrian stock companies quoted on the exchange with a lead performance in social equity and ecology.

Lenzing gained position two in category "Sustainability" of the 2010 award of the Vienna Stock Exchange, the Wiener Börse Preis. The award is based on 100 criteria and 400 indicators using publicly available and individual company sources, as well as secondary sources, such as media reports. Companies are considered sustainable if they assume active responsibility for their shareholders and if their business purpose does not concern defense, nuclear energy, addictive drugs, genetic engineering or gambling.

A leading Austrian business paper in July 2010 voted Lenzing AG as Austria's top world market player and as Austria's champion, out of a field of 30 renowned competitors.

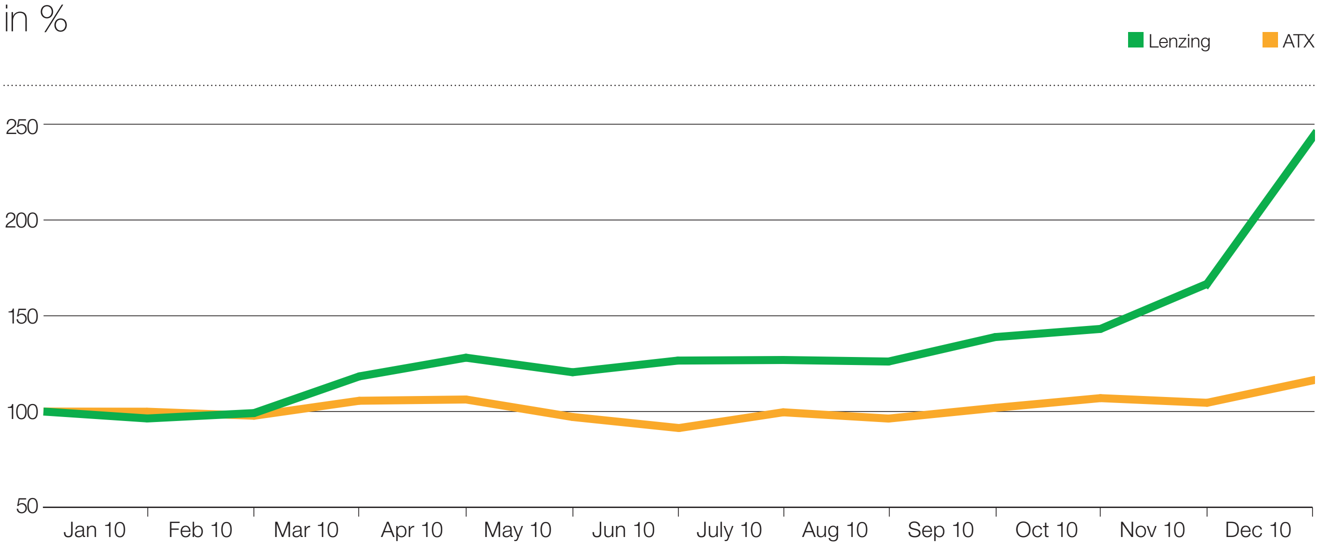
Lenzing regularly and comprehensively informed its shareholders by means of press releases, detailed quarterly reports and personal contacts. Its quarterly and annual reports were made available to a wider audience as part of broadening promotional activities. Lenzing's management board held numerous talks with interested institutional investors.

The placement of the Lenzing corporate bond in the fall of 2010 with a volume of EUR 120 mill. and a term to maturity of seven years aroused extensive investor interest.

Management Report 2010

The Lenzing share price

in %



Public Relations

Lenzing provided the general public and its employees with regular and timely information on its business development, current projects and important activities throughout the reporting year. Numerous press releases, media events and individual talks with journalists kept the general public well informed.

A trip to Indonesia on the occasion of the inauguration of the fourth production line of the Lenzing's subsidiary PT. South Pacific Viscose (SPV) provided key media representatives with the opportunity of obtaining first-hand information on Lenzing's local activities in Indonesia.

Regular in-house and customer magazines, newsletters and a TV feature on local television in the Lenzing region enhanced corporate communication.

The quarterly local-language staff magazines "Der Lenzinger" (Lenzing, Austria) and the monthly "Zpravodaj Biocel" (Paskov, Czech Republic) provide news about and around the respective location. The semiannual bilingual magazine Lenzing Inside informs about news from the Lenzing Group and is distributed to staff at all company sites, as well as to interested customers and partners.

The TV magazine Lenzing Aktuell, broadcast by the Upper Austrian TV station Bezirks TV, provided current news and information from the world of Lenzing. English versions were made available to all employees via the Group's intranet.

The international expert audience attended Lenzing's presentations at numerous fairs in Europe, America and Asia, such as Texworld, Heimtextil, Techtextil and Expofil. These events provided the Lenzing Group with the welcome opportunity to inform on innovative products and to maintain and develop relationships with its customers.

Moreover, about 2,600 visitors of the Lenzing site experienced viscose fiber production live in the course of guided company tours.

In 2010 Lenzing was given the "Eco Responsibility Award" in the category "Fabrics and Fibers" for TENCEL® at ISPO, the largest sports fair in Munich.

Management Report 2010

Outlook Lenzing Group

Against the backdrop of an overall satisfactory global economic development, the upward trend in fiber demand also continued in the first weeks of the current business year 2011. The megatrends of population growth and rising prosperity in the emerging markets are further propelling worldwide fiber consumption. The current shortage of cotton led to all-time high cotton prices, which impacts price levels in the fiber industry and competition among different types of fibers. Even if cotton prices were partly driven upwards by speculation in the first quarter of 2011, the structural consequences of the "cellulose gap" on the market are far-reaching and measureable.

With this in mind, demand in the most important business units of the Lenzing Group – Textile Fibers and Nonwoven Fibers – is expected to remain strong in the future. New production capacities for man-made cellulose fibers coming on stream in Asia will likely be well received by the market in 2011. The trend towards sustainably produced products is a further important factor underlying the increasing fiber sales of the Lenzing Group.

At the beginning of 2011 the order situation was gratifying in all segments of the Lenzing Group. Fiber and pulp production plants at all sites were running at full capacity. However, raw material prices are also steadily moving upwards. The Lenzing Group has secured a sufficient supply of wood and pulp for the 2011 business year under these conditions.

Additional production capacities which will be available in 2011 amounting to a volume of more than 70,000 tons as well as an improved product mix with a higher proportion of specialty fibers will be vital growth drivers for the Lenzing Group in 2011. On balance, Lenzing expects a gratifying business development along with increased sales and earnings in 2011 assuming that the current market environment continues.

For the current business year, based on the assumption of a 10% increase of production compared to 2010, stable prices remaining at the levels as of the beginning of the 2011 business year and a moderate increase of costs, Lenzing expects to increase sales by 15-20% and further improve EBITDA and EBIT margins. Capex is estimated to amount to approximately 15% of sales. In view of the capital-intensive expansion program, the Lenzing management plans to propose a dividend payout of approximately 25% of consolidated net income (after minority interests) to its supervisory board and the annual general meeting.

Events after the Reporting Period

As of 18 February 2011 the plastics filaments business, part of the Segment Plastics Products, was sold to a consortium headed by the Austrian group Global Equity Partners.

Lenzing, 28 February 2011

Peter Untersperger

Friedrich Weninger

Thomas G. Winkler

Corporate Governance Report 2010

The Austrian Code of Corporate Governance (ACCG) provides Austrian stock corporations with a framework for company management and monitoring. This framework includes international standards of good corporate governance, as well as relevant regulations of Austrian stock corporation law.

The code aims for responsible management and control of companies and groups orientated towards sustainable and long-term value creation. It is intended to create a high measure of transparency for all company stakeholders.

Lenzing AG respects the ACCG. For the first time, the company committed itself in 2010 to observing the stipulations documented in the code, which is downloadable at http://www.corporate-governance.at.

The company´s corporate governance report is publicly accessible on www.lenzing.com.

1) Explanation for divergences from the C rules of the ACCG

C rule 31/51

Lenzing AG is of the opinion that the individual presentation of management board or supervisory board remuneration will not provide shareholders or stakeholders with any additional information relevant to capital markets and will therefore provide no gain in knowledge or insight relevant to commercial or economic issues.

2) Management board information

Peter Untersperger (b. 1960)
Chairman
First appointment to the board: 1 January 1999
End of current mandate: 31 March 2013

Responsibilities: Business Unit Engineering, Corporate Communications, Global Human Resources, Internal Audit, Mergers & Acquisitions, Wood Purchasing

No supervisory board mandate at any other company

Friedrich Weninger (b. 1957)
Member
First appointment to the board: 1 January 2009
End of current mandate: 31 December 2011

Responsibilities: Business Unit Textile Fibers, Business Unit Nonwoven Fibers, Business Unit Pulp, Business Unit Plastics, Business Unit Filaments, Business Unit Energy, Safety, Health & Environment, Environmental Protection in Lenzing, Infrastructure in Lenzing, Business Planning

No supervisory board mandate at any other company

Thomas G. Winkler (b. 1963)
Member
First appointment to the board: 1 April 2010
End of current mandate: 31 March 2013

Responsibilities: Global Finance, Global Information Technology, Global Purchasing, Legal Management, Risk Management

No supervisory board mandate at any other company

3) Information on the supervisory board

3.1. Members

Hermann Bell (b. 1932)
Chairman
First appointment to the board: 5 July 1972
End of current mandate: 2011

Supervisory board mandate at other quoted companies:
Oberbank AG (Chairman), BKS Bank AG

Michael Junghans (b. 1967)
Deputy Chairman
First appointment to the board: 30 April 2010
End of current mandate: 2013

Supervisory board mandate at other quoted companies:
Semperit AG Holding, Allg. Baugesellschaft – A. Porr AG

Walter Lederer (b. 1961)
First appointment to the board: 27 June 2002
End of current mandate: 2012

Supervisory board mandate at other quoted companies:
Semperit AG Holding, Allg. Baugesellschaft – A. Porr AG, Imperial Hotels Austria AG, UBM Realitätenentwicklung AG

Josef Krenner (b. 1952)
First appointment to the board: 23 April 2009
End of current mandate: 2012

Supervisory board mandate at other quoted companies:
Voestalpine AG

Corporate Governance Report 2010

Helmut Bernkopf (b. 1967)
First appointment to the board: 23 April 2009
End of current mandate: 2012

Supervisory board mandate at other quoted companies:
CA Immobilien Anlagen AG

Martin Payer (b. 1978)
First appointment to the board: 15 June 2007
End of current mandate: 2012

Supervisory board mandate at other quoted companies:
Semperit AG Holding

Andreas Schmidradner (b. 1961)
First appointment to the board: 12 June 2008
End of current mandate: 2012

Supervisory board mandate at other quoted companies:
Semperit AG Holding

Veit Sorger (b. 1942)
First appointment to the board: 4 June 2004
End of current mandate: 2012

Supervisory board mandate at other quoted companies:
Mondi AG (Chairman), Semperit AG Holding (Chairman)

Supervisory board members delegated by the workers' council: Rudolf Baldinger, Georg Liftinger, Gerhard Ratzesberger, Johann Schernberger

3.2. Supervisory board Independence (C rule 53 ACCG)

The supervisory board has adopted the guidelines on independence laid down in Appendix 1 of ACCG.

All members of the supervisory board have declared their not being dependent upon the company and upon its managing board.

3.3. Method of operation

To fulfill its responsibility of monitoring the work of the managing board, the supervisory board of Lenzing AG convenes itself at least once every quarter during the financial year. In the year under review, the supervisory board met 6 times (C rule 36).

The supervisory board of Lenzing AG constituted two committees from its members (C rules 34 and 39 ACCG):

Audit committee

The audit committee fulfills the responsibilities assigned to it by section 92 paragraph 4a of Austria's Joint Stock Company Act. This stipulates that these responsibilities are primarily the auditing and preparing of the adoption of the annual financial statements and the examination of the proposal made by the managing board on the distribution of profits and the management report. The audit committee also verifies the Group's consolidated financial statements and furnishes a proposal as to the annual auditor to be named. The committee is required to provide a report on its activities to the supervisory board. In financial year 2010, the audit committee met three times.

Members: Hermann Bell (Chairman), Michael Junghans, Rudolf Baldinger

Presidential committee

The chairman of the supervisory board and his deputy constitute the board's presidential committee, to which the rights have been reserved for the handling of all matters involving the relationships between the company and the members of the managing board, with the exception of decisions on the appointment or dismissal of members of the management board. In the period under review, the presidential committee met 6 times.

Members: Hermann Bell (Chairman), Michael Junghans

4) Principles of management board and supervisory board remuneration (C rule 30 ACCG)

- The participation of the management board is essentially determined by the criteria of dividend payouts, cash flow and attaining of profits on a long-term basis.
- The variable share of remuneration may constitute up to 50% of total remuneration.
- Company pension benefits, settlements on dismissal and entitlements of management board members are defined by legal regulations.
- The company has provided members of the management board with directors and officers liability insurance and legal protection insurance.

The principles of remuneration of members of the supervisory board are laid down in the articles of association of Lenzing AG (§ 13), which are published on the website of the company.

5) Fostering the advancement of women to the managing and supervisory boards and to senior positions (L rule 60)

Lenzing facilitates the advancement of women to and in management positions. These are in all areas of corporate operation. This fostering especially takes the forms of stepping up the participation of women in in-company management training programs.

Lenzing Aktiengesellschaft

Lenzing, January 2011

The Management Board

Peter Untersperger

Friedrich Weninger

Thomas G. Winkler

We‘ve done our homework

Whoever wants to be the best in class must always be alert and diligently do his or her homework. This means Lenzing focuses on ensuring ongoing innovation, maintaining a dialogue with customers and employees and developing appropriate responses to market challenges. Lenzing finished the year 2010 with the best possible marks.

CONSOLIDATED FINANCIAL STATEMENTS 2010

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Income Statement

		2010	2009
Continuing operations	Note	EUR '000	EUR '000
Sales	(7)	1,766,323	1,217,993
Changes in inventories of finished goods and work in progress	(8)	(3,632)	(32,245)
Work performed by the Group and capitalized	(9)	33,839	31,411
Other operating income	(10)	43,525	35,152
Cost of material and purchased services		(1,028,523)	(685,143)
Personnel expenses	(11)	(259,211)	(234,784)
Amortization of intangible assets and depreciation of property, plant and equipment	(12)	(102,523)	(77,688)
Other operating expenses	(13)	(217,870)	(140,489)
Income from operations (EBIT)	**(14)**	**231,928**	**114,207**
Income from investments in associates	(15)	1,411	2,399
Other investment income	(16)	1,716	781
Finance costs	(16)	(16,051)	(13,909)
Allocation of profit or loss to puttable non-controlling interests		(2,140)	(561)
Income before tax (EBT)		**216,864**	**102,917**
Income tax	(17)	(40,203)	(22,994)
Profit for the year after taxes from continuing operations		**176,661**	**79,923**
Discontinued operations			
Result from discontinued operations	(5)	(6,723)	(13,120)
Profit for the year		**169,938**	**66,803**
Attributable to shareholders of Lenzing AG		159,118	64,369
Attributable to non-controlling interests		10,820	2,434
Earnings per share	(18)	EUR	EUR
From continuing operations and discontinued operations		6.19	2.50
From continuing operations		6.45	3.01

Consolidated Financial Statements 2010

Statement of Comprehensive Income

Statement of Comprehensive Income	Common stock	Capital reserves	Foreign currency translation reserve
2009	EUR '000	EUR '000	EUR '000
Profit for the year			
Exchange differences arising during the year			(3,369)
Reclassification adjustments relating to foreign operations disposed of in the year			264
Net result on revaluation of available-for-sale financial assets during the year			
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year			
Gains/losses from the valuation of cash flow hedges arising during the year			
Reclassification adjustments for amounts from cash flow hedges recognized in profit or loss			
Actuarial gains/(losses) on defined benefit plans			
Share of other comprehensive income of associates			
Income tax relating to components of other comprehensive income			
Other comprehensive income for the year – net of tax	**0**	**0**	**(3,105)**
Total comprehensive income for the year	**0**	**0**	**(3,105)**
2010			
Profit for the year			
Exchange differences arising during the year			18,112
Net result on revaluation of available-for-sale financial assets during the year			
Gains/losses from the valuation of cash flow hedges arising during the year			
Reclassification adjustments for amounts from cash flow hedges recognized in profit or loss			
Actuarial gains/(losses) on defined benefit plans			
Share of other comprehensive income of associates			
Income tax relating to components of other comprehensive income			
Other comprehensive income for the year – net of tax	**0**	**0**	**18,112**
Total comprehensive income for the year	**0**	**0**	**18,112**

Share of Lenzing AG shareholders					Non-controlling interests	Equity Total
Available-for-sale financial assets	Cash flow hedging reserve	Actuarial gains/ (losses) on defined benefit plans	Retained earnings	Total		
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
			64,369	**64,369**	**2,434**	**66,803**
				(3,369)	(155)	(3,524)
				264	0	264
353				353	0	353
34				34	1	35
	(2,614)			(2,614)	0	(2,614)
	8,949			8,949	0	8,949
		3,882		3,882	25	3,907
0	70	100		170	0	170
(97)	(779)	(915)		(1,791)	(7)	(1,798)
290	**5,626**	**3,067**	**0**	**5,878**	**(136)**	**5,742**
290	**5,626**	**3,067**	**64,369**	**70,247**	**2,298**	**72,545**
			159,118	**159,118**	**10,820**	**169,938**
				18,112	1,491	19,603
(159)				(159)	0	(159)
	2,269			2,269	(230)	2,039
	2,731			2,731	0	2,731
		(1,992)		(1,992)	(109)	(2,101)
0	(70)	(65)		(135)	0	(135)
40	(1,042)	517		(485)	73	(412)
(119)	**3,888**	**(1,540)**	**0**	**20,341**	**1,225**	**21,566**
(119)	**3,888**	**(1,540)**	**159,118**	**179,459**	**12,045**	**191,504**

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Statement of Changes in Equity

Statement of Changes in Equity	Common stock	Capital reserves	Foreign currency translation reserve
	EUR '000	EUR '000	EUR '000
Balance at 1 January 2009 before	**26,717**	**63,600**	**(15,602)**
Adjustments according to IAS 8	0	0	0
Balance at 1 January 2009 adjusted	**26,717**	**63,600**	**(15,602)**
Total comprehensive income for the year	**0**	**0**	**(3,105)**
Change in scope of consolidation			
Dividends			
Balance at 31 December 2009 = Balance at 1 January 2010	**26,717**	**63,600**	**(18,707)**
Total comprehensive income for the year	**0**	**0**	**18,112**
Change in scope of consolidation			
Dividends			
Balance at 31 December 2010	**26,717**	**63,600**	**(595)**

*) The dividend per share was EUR 14 for business year 2008/EUR 14 for business year 2009. In December 2010 the number of shares in circulation was increased to 25,725,000 by a stock split with a proportion of 1:7. A hypothetical dividend would have amounted to 2 EUR per share in the business years 2008 and 2009.

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Share of Lenzing AG shareholders					Non-controlling interests	Equity Total
Available-for-sale financial assets	Cash flow hedging reserve	Actuarial gains/(losses) on defined benefit plans	Retained earnings	Total		
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
(226)	(7,983)	(13,108)	503,714	557,112	22,615	579,727
0	0	0	0	0	(15,366)	(15,366)
(226)	(7,983)	(13,108)	503,714	557,112	7,249	564,361
290	5,626	3,067	64,369	70,247	2,298	72,545
	0			0	(1)	(1)
			(51,450)*	(51,450)	(49)	(51,499)
64	(2,357)	(10,041)	516,633	575,909	9,497	585,406
(119)	3,888	(1,540)	159,118	179,459	12,045	191,504
				0	6,583	6,583
			(51,450)*	(51,450)	(36)	(51,486)
(55)	1,531	(11,581)	624,301	703,918	28,089	732,007

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Statement of Financial Position

Assets	Note	31/12/2010 EUR '000	31/12/2009 EUR '000
Intangible assets	(19)	87,681	88,017
Property, plant and equipment	(20)	1,002,798	841,698
Investments in associates	(21)	24,738	23,226
Other financial assets	(22)	67,316	19,014
Deferred taxes	(33)	10,150	2,999
Other non-current assets	(23)	2,475	2,179
Non-current assets		**1,195,158**	**977,133**
Inventories	(24)	222,761	175,616
Trade receivables	(25)	181,523	118,509
Current taxes		14,788	11,550
Other receivables and assets	(27)	58,630	39,050
Investments	(28)	5,125	19,924
Cash and cash equivalents	(37)	249,388	105,429
		732,215	**470,078**
Assets of discontinued operations	(5)	36,076	0
Current assets		**768,291**	**470,078**
		1,963,449	**1,447,211**

Equity and Liabilities		31/12/2010	31/12/2009
	Note	EUR '000	EUR '000
Common stock		26,717	26,717
Capital reserves		63,600	63,600
Currency translation reserves		(595)	(18,707)
Retained earnings and other reserves		614,196	504,299
Share of shareholders of Lenzing AG		**703,918**	**575,909**
Non-controlling interests		28,089	9,497
Equity	**(29)**	**732,007**	**585,406**
Government grants	**(30)**	**34,334**	**29,265**
Bank loans and bonds	(31)	518,989	365,030
Other loans	(31)	33,331	35,272
Trade payables		1,551	5,231
Deferred taxes	(33)	36,873	26,626
Provisions	(34)	96,208	96,536
Puttable non-controlling interests		24,255	10,856
Other liabilities	(35)	18,855	1,519
Non-current liabilities		**730,062**	**541,070**
Bank loans and overdrafts	(31)	50,607	31,696
Other loans	(31)	9,867	9,027
Trade payables		134,132	90,360
Provisions for current income tax		31,774	23,770
Other provisions	(34)	162,118	95,629
Puttable non-controlling interests		5,358	9,842
Other liabilities	(35)	38,640	31,146
		432,496	**291,470**
Liabilities of discontinued operations	(5)	34,550	0
Current liabilities		**467,046**	**291,470**
		1,963,449	**1,447,211**

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Cash Flow Statement

	Note	2010 EUR '000	2009 EUR '000
Gross cash flow			
from continuing operations		282,350	147,440
from discontinued operations		10,541	(6,523)
	(37)	**292,891**	**140,917**
Change in working capital	(37)	10,594	102,941
Net cash generated by discontinued operations	(5)	(9,488)	7,087
Operating cash flow		**293,997**	**250,945**
- Acquisition of non-current assets	(37)	(285,095)	(165,570)
+ Proceeds from the disposal/repayment of non-current assets	(37)	5,649	8,693
+ Proceeds from the sale of securities held as current assets	(37)	0	7
Net cash generated by discontinued operations	(5)	(1,273)	(1,128)
Net cash used in investing activities		**(280,719)**	**(157,998)**
+ Payments of puttable non-controlling interests	(37)	5,535	4,998
- Dividends paid to shareholders		(51,487)	(51,498)
+ Receipts from financing activities	(37)	241,353	65,287
- Repayment of loans		(81,455)	(90,939)
- Contribution of equity to discontinued operations		0	(1,026)
Net cash generated by discontinued operations	(5)	(680)	1,329
Net cash used in (-)/ generated by (+) financing activities		**113,266**	**(71,849)**
Change in cash and cash equivalents total		**126,544**	**21,098**
+ / - Change in cash and cash equivalents of discontinued operations		900	(765)
Change in cash and cash equivalents of continuing operations		**127,444**	**20,333**
Cash and cash equivalents at beginning of the year		123,844	105,047
Currency translation adjustment relating to cash and cash equivalents		3,225	(1,536)
Cash and cash equivalents at the end of the year	**(37)**	**254,513**	**123,844**

Notes

Summary of accounting policies and other explanatory notes to the consolidated financial statements as at 31 December 2010

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. As at 31 December 2010 the majority shareholder of Lenzing AG is B & C Group which holds, directly or indirectly, 90.54% of Lenzing AG's share capital. B & C Industrieholding GmbH 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 global sales network includes trading companies in Shanghai and Hong Kong and sales offices in New York and Coimbatore.

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.

Use of estimates

The preparation of financial statements in accordance with IFRS requires that the management board makes 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 results of the impairment tests performed depend significantly on the assumptions on discount rates, rates of economic growth, development of prices and sales volumes and market risks used in the computation.

The underlying assumptions related to the estimates are reviewed and adjusted on an ongoing basis.

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

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 2010. 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:

	2010		2009	
	Full consolidation	Equity consolidation	Full consolidation	Equity consolidation
As at 1/1	**39**	**6**	**41**	**5**
Consolidated for the first time in reporting period	4	1	0	1
Merged in reporting period	0	0	(1)	0
Deconsolidated in reporting period	0	0	(1)	0
As at 31/12	**43**	**7**	**39**	**6**

Changes in the scope of consolidation are explained in note 4.

Consolidation principles

The acquisition of subsidiaries is accounted for in accordance with IFRS 3 by applying the acquisition 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 statement of financial position 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 reporting 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 "Non-controlling interests". Puttable non-controlling interests are shown within short or long-term liabilities according to their limited contract period.

Note 2. Adoption of new and revised accounting standards

Standards and interpretations applicable in business year 2010

Lenzing Group adopts new or revised standards and interpretations that are relevant to the Group and which are to be applied in reporting periods starting on 1 January 2010.

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 in business year 2010:

- IFRS 1 (revision) **First-time Adoption of International Financial Reporting Standards**
- IFRS 3 (revision) **Business Combinations**
- IAS 27 (revision) **Consolidated and Separate Financial Statements**
- Amendments to IFRS 1 **First-time Adoption of International Financial Reporting Standards**
- Amendments to IFRS 2 **Share-based Payment**
- Amendments to IAS 39 **Financial Instruments: Recognition and Measurement**
- Amendments to various IFRSs (IFRS 2, 5, 8, IAS 1, 7, 17, 36, 38, 39) and IFRICs (9, 16) as a result of the annual improvement project 2009

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- Amendments to IFRS 5 and IFRS 1 as a result of the annual improvement project 2008
- IFRIC 12 (new) **Service Concession Arrangements**
- IFRIC 16 (new) **Hedges of a Net Investment in a Foreign Operation**
- IFRIC 17 (new) **Distributions of Non-cash Assets to Owners**
- IFRIC 18 (new) **Transfers of Assets from Customers**

Effect of the application of new or revised standards on the consolidated financial statements of Lenzing Group

The accounting principles for the presentation of business combinations were fundamentally revised in the current IFRS 3. Besides changes for recognition and measurement of assets and liabilities recognizable in a business combination the IASB introduced the so-called full goodwill method for consolidation of subsidiaries with non-controlling interests. In the current business year a material acquisition was carried out (please refer to note 4). Non-controlling interests were recognized under application of the full goodwill method. Non-controlling interests measured at their carrying amounts would have amounted to EUR 21,796 thousand otherwise (please refer to note 4).

Other regulations of IAS 27 only lead to changes in specific cases (e.g. for acquisitions and disposals of subsidiaries without obtaining or losing control).

The other accounting standards, new or revised, to be adopted as of 1 January 2010 have no effect on the financial statements of the Lenzing Group. The other accounting policies and valuation methods applied in the consolidated financial statements remain unchanged as compared to the previous consolidated financial statements of the Lenzing Group for the year ended 31 December 2009.

Standards and interpretations already issued but applicable for subsequent reporting periods

The following revised standards, new interpretations and amended standards had already been issued during 2010 and up to the time of preparation of these consolidated financial statements. Their application to business years beginning on or before 1 January 2010 is not mandatory, and the Group has not applied them early on a voluntary basis:

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

- Amendments to IAS 32 **Financial Instruments: Presentation** concerning the classification of rights issues

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

- Amendments to IFRS 1 **First-time Adoption of International Financial Reporting Standards**
- IFRIC 19 **Extinguishing Financial Liabilities with Equity Instruments**
- Amendments to various IFRSs (IFRS 3, IAS 21, 27, 28, 31, 32, 39) as a result of the annual improvement project 2010 (not yet endorsed by the EU)

Effective for business years beginning on or after 1 January 2011:

- Amendments to IAS 24 **Related Party Disclosures**
- Amendments to IFRIC 14 **IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**
- Amendments to various IFRSs (IFRS 1, 7, IAS 1, 34) and IFRIC 13 as a result of the annual improvement project 2010 (not yet endorsed by the EU)

Effective for business years beginning on or after 1 July 2011:

- Amendments to IFRS 1 **First-time Adoption of International Financial Reporting Standards** (not yet endorsed by the EU)
- Amendments to IFRS 7 **Financial Instruments: Disclosures** (not yet endorsed by the EU)

Effective for business years beginning on or after 1 January 2012:

Amendments to IAS 12 **Income Taxes** (not yet endorsed by the EU)

Effective for business years beginning on or after 1 January 2013:

- IFRS 9 **Financial Instruments** (not yet endorsed by the EU)

Future implications – especially of IFRS 9 – are currently analyzed. Management assumes that the expected changes will mainly affect measurement of financial assets, especially the presentation of changes in value in the income statement or other comprehensive income respectively.

The amendments to the various standards concerning the presentation and measurement of financial instruments will be applied at the effective dates stated. 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.

Notes

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 reporting date (closing rate).

Assets and liabilities of subsidiaries are translated from functional currency to the reporting currency using the exchange rate prevailing on the reporting 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 other comprehensive income 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	
			31/12/2010	31/12/2009
1	EUR/USD	US Dollar	1.3376	1.4410
1	EUR/GBP	British Pound	0.8616	0.8880
1	EUR/CZK	Czech Koruna	25.0850	26.4680
1	EUR/CNY	Renminbi Yuan	8.8150	9.8367
1	EUR/HKD	Hong Kong Dollar	10.3965	11.1749

Non-current assets held for sale or distribution

Non-current assets (or disposal groups), that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated in accordance with IAS 36. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortized or depreciated systematically. In addition, equity accounting of associated companies ceases once classified as held for sale or distribution.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income (2009 adjusted values according to IFRS 5) is re-presented as if the operation had been discontinued from the start of the comparative year.

Intangible assets

Intangible assets are stated at cost less any accumulated amortization at the reporting 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 10

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".

Property, plant and equipment

Property, plant and equipment are stated at cost less any accumulated depreciation at the reporting 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	30 to 50
Office and factory buildings	10 to 50
Other buildings	7 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 20
Office equipment and fixtures	2 to 15
IT hardware	3 to 10

Major rebuilding is capitalized, whereas maintenance or repair work, as well as minor rebuilding, is recognized in profit or loss as incurred.

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

Notes

Impairment

Cash-generating units with goodwill attributable to them and intangible assets with an indefinite useful life have to be tested for impairment at least annually. All other intangible assets and property, plant and equipment have to be tested for impairment if there is any indication of impairment.

An asset is deemed to be impaired if the recoverable amount of the asset or the cash-generating unit is lower than the carrying amount. The recoverable amount is the higher of the fair value and the value in use. The value in use equals the present value of the estimated future cash flows discounted at a pre-tax discount rate customary in the market and taking into account risks specific to the asset. If the recoverable amount of an asset cannot be determined the asset will be included in a cash-generating unit. A cash-generating unit is the smallest group of assets that generates cash flows independent of the cash flows from other assets or group of assets. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the respective business combination and represent the lowest level within the Group at which cash flows are monitored for management purposes.

The value in use is determined by the use of cash flow projection based on financial budgets for the next four years approved by management. For periods exceeding the four year planning horizon cash flows are projected at a perpetuity based on the assumptions of the fourth year. The discount rate is an average of borrowing costs and the expected return on equity (WACC) that reflects current market assessments and the risks specific to the assets concerned.

If the recoverable amount of an asset is less than its carrying amount an impairment loss reflecting the amount of the difference has to be recognized in profit or loss. Impairment losses are recognized in the income statement under the heading “Amortization of intangible assets and depreciation of property, plant and equipment”. Impairment losses of cash-generating units reduce the carrying amount of any goodwill allocated to the cash-generating unit in the first place. If the impairment loss exceeds the carrying amount of goodwill the exceeding amount reduces the carrying amount of the assets attributed to the cash-generating unit.

Where an impairment loss subsequently reverses, the 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. An impairment loss recognized for goodwill must not be reversed in a subsequent period according to IAS 36.

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 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 in other comprehensive income.

On the one hand the securities held as fixed assets serve as strategic liquidity reserve and on the other hand they also serve as partial funding for pension provision as regulated by section 14 of the Austrian Income Tax Act (öEStG) (large-scale investor fund GF 82 - special fund, as regulated by section 20a of the Austrian Investment Fund Act (InvFG)).

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 seven 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%), PT. Pura Golden Lion (PGL) (40%), Wood Paskov s.r.o. (LWP) (37,5%) 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 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 in the year of acquisition.

Deferred tax

Deferred tax assets or liabilities are recognized for all differences between the carrying amounts of assets and liabilities in the statement of financial position 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 intragroup 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.

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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 reporting 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”.

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 in other comprehensive income 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 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 statement of financial position.

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 reporting 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 in other comprehensive income 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.

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The obligation recognized in the statement of financial position 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 instruments 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.

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 that are directly attributable to financing an asset and arise during the construction period are capitalized. All other borrowing costs are recognized in profit or loss in the period in which they arise.

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 commodity 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 in other comprehensive income. 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 in other comprehensive income 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.

Adjustments according to IAS 8

In prior financial statements the capital share attributable to non-controlling shareholders of Lenzing (Nanjing) Fibers Co.,

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Ltd. and European Precursor GmbH (30% and 49% respectively) was presented as non-controlling interest within equity. But according to IFRS this capital share is a liability due to time limitations under corporate law. The attributable result is recognized within profit or loss.

As the mentioned presentation differences occurred before the earliest presented period, the opening balance as at 1 January 2009 was adjusted retrospectively.

The adjustments show the following effects on the separate positions of the financial statements:

	before 1/1/2009	adjusted 1/1/2009	before 31/12/2009	adjusted 31/12/2009
Statement of Financial Position	EUR '000	EUR '000	EUR '000	EUR '000
Non-controlling interests	22,615	7,249	30,195	9,497
Puttable non-controlling interests	0	15,366	0	20,698
			before 2009	adjusted 2009
Income statement			EUR '000	EUR '000
Allocation of profit or loss to puttable non-controlling interests			0	(561)

Within the statement of changes in equity the adjustments of the opening balance are presented in a separate line according to IAS 8. The amounts of other comprehensive income (loss of EUR 227 thousand in the financial year 2009), which were attributed to non-controlling interests so far, were adjusted within other comprehensive income. The consolidated income statement is affected by the modified presentation of proportionate results of the year as expense from allocation of profit or loss to puttable non-controlling interests (EUR 561 thousand). The consolidated cash flow statement starts with a profit of the year, which is reduced by the allocation of profit or loss to puttable non-controlling interests. Non-cash transactions were adjusted by the same amount.

Earnings per share are determined on the basis of profit or loss attributable to the shareholders of Lenzing AG. Therefore the movement within results of non-controlling interests due to the adjustment of allocation of profit or loss to puttable non-controlling interests is not affecting earnings per share.

Note 4. Acquisition of subsidiaries

Since April 2010 Lenzing Group has acquired several pieces of interest in Lenzing Modi Fibers India Private Limited, which is a joint venture with the Indian Modi Group. Currently Lenzing is holding 99.9% of the shares.

With effect of 7 May 2010 the Lenzing Group acquired a 75% capital and voting 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 be responsible for 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.

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

The receivables (mainly trade receivables) acquired as part of this transaction show an attributable fair value of EUR 26,706 thousand and a gross contract value of EUR 30,689 thousand. Thereof an amount of EUR 3,983 thousand was expected to be uncollectible as at the acquisition date.

Assets and liabilities at the acquisition date (100%)	EUR '000
Intangible assets and property, plant and equipment	73,815
Financial assets	19
Inventories	10,636
Receivables and other assets	26,706
Cash and cash equivalents	21,556
Bank loans and other loans	(21,730)
Deferred taxes	(3,530)
Provisions	(1,912)
Liabilities	(18,375)
Identifiable assets less liabilities (net assets)	87,185

Notes

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

The profit for the period includes EUR 13,085 thousand generated additionally by the Biocel Group. Sales of the reporting period include EUR 106,322 thousand generated by the Biocel Group.

Had the acquisition taken place on 1 January 2010, it would have led to consolidated sales increased by EUR 49,455 thousand and a profit for the period increased by EUR 5,485 thousand. The management based its calculation of these pro forma 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 business combination and not on the basis of their book value as presented in the final accounts before the purchase.

In October 2010 Lenzing Engineering & Technical Services (Nanjing) Co., Ltd., the Chinese subsidiary of Lenzing Technik GmbH, was founded.

Note 5. Discontinued operations

To focus the resources on the core business cellulose fibers in the future, the plastics filaments business is sold to a consortium around the Global Equity Partners Group (GEP) for further streamlining of the portfolio. GEP acquires 100% of the shares in the two German companies Hahl Filaments GmbH/Munderkingen and Pedex GmbH/Affolterbach, in the US company Hahl Inc./ Lexington and in the Czech company Hahl Filaments s.r.o./Plana as well as in the related real estate and holding companies.

Discontinued operations are part of the segment Plastics Products.

The major parts influencing the result from discontinued operations are set out in the following table:

	2010	2009
Result from discontinued operations	EUR '000	EUR '000
Revenue	50,511	37,504
Other income and expense	(45,469)	(39,991)
EBITDA	**5,042**	**(2,487)**
Depreciation and amortization	(5,472)	(7,672)
EBIT	**(430)**	**(10,159)**
Financial result	(634)	(930)
Income before tax	**(1,064)**	**(11,089)**
Attributable income tax	(176)	409
Income after tax	**(1,240)**	**(10,680)**
Result from measurement at fair value less costs to sell	(4,877)	0
Valuation adjustments and tax effects attributable to discontinued operations	(606)	(2,440)
Loss for the period	**(6,723)**	**(13,120)**
Attributable to:		
Shareholders of Lenzing AG	(0.26)	(0.51)
Shareholders with non-controlling interests	0.00	0.00
Basic earnings per share	(0.26)	(0.51)

Notes

The carrying amounts were adjusted according to the agreed sales price. Expenses of EUR 24 thousand (2009: income of EUR 107 thousand) of other comprehensive income/expense (e.g. actuarial gains) are related to discontinued operations.

The major classes of assets and liabilities comprising the disposal group at the reporting date are as follows:

	31/12/2010
Statement of Financial Position	EUR '000
Intangible assets	583
Property, plant and equipment	15,359
Deferred tax	1,187
Other non-current assets	41
Non-current assets	**17,170**
Inventories	11,795
Receivables and other assets	6,465
Cash at banks	646
Current assets	**18,906**
Assets of discontinued operations	**36,076**
Financial liabilities	21,261
Deferred tax	1,039
Provisions	3,776
Non-current liabilities	**26,076**
Financial liabilities	3,386
Trade payables	1,896
Provisions	2,204
Other payables	988
Current liabilities	**8,474**
Liabilities of discontinued operations	**34,550**
Net assets of discontinued operations	**1,526**

The following cash flows are attributable to discontinued operations:

	2010	2009
Cash flows from discontinued operations	EUR '000	EUR '000
Gross cash flow	10,541	(6,523)
Change in working capital	(9,488)	7,087
Operating cash flow	1,053	564
Net cash used in investing activities	(1,273)	(1,128)
Net cash used in (-)/from (+) financing activities	(680)	1,329
Net cash flows	**(900)**	**765**

Note 6. Segment reporting

Business segments

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

Segment 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.

Segment Plastics Products:

Segment Plastics Products produces plastics specialties for processing and finishing. This segment comprises Business Units Plastics and Filaments.

Segment Engineering:

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

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

Other:

The residual segment Other mainly comprises the disclosures of BZL-Bildungszentrum Lenzing GmbH, an educational activity of the Lenzing Group. The headings "Share in the result of associated companies" and "Investments in associated companies" comprise the investments in WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H and Lenzing Papier GmbH.

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2010	Fibers	Plastics Products	Engineering
	EUR '000	EUR '000	EUR '000
Sales to external customers	1,584,305	143,062	37,683
Inter-segment sales	12,082	1,550	53,500
Total sales	1,596,387	144,612	91,183
Segment result (EBIT)	230,348	(4,326)	7,586
Segment result (EBITDA)	312,061	13,806	9,010
Amortization / depreciation	85,570	18,134	1,429
Share in the result of associated companies	3,848	0	0
Expenditure for property, plant and equipment and intangible assets	224,422	5,838	1,023

31/12/2010	Fibers	Plastics Products	Engineering
	EUR '000	EUR '000	EUR '000
Segment assets	1,424,099	119,437	43,505
Segment liabilities	429,478	39,477	25,583
Investments in associated companies	24,004	0	0

2009	Fibers	Plastics Products	Engineering
	EUR '000	EUR '000	EUR '000
Sales to external customers	1,078,181	109,367	29,540
Inter-segment sales	12,041	1,207	51,974
Total sales	1,090,222	110,574	81,514
Segment result (EBIT)	109,790	3,715	2,183
Segment result (EBITDA)	179,846	7,840	4,057
Amortization/depreciation	74,063	4,128	1,879
Share in the result of associated companies	2,072	0	0
Expenditure for property, plant and equipment and intangible assets	134,946	15,667	1,858

31/12/2009	Fibers	Plastics Products	Engineering
	EUR '000	EUR '000	EUR '000
Segment assets	1,107,883	159,502	31,108
Segment liabilities	280,623	46,741	22,199
Investments in associated companies	19,945	0	0

Other	Consolidation	Continuing operations	Discontinued operations
EUR '000	EUR '000	EUR '000	EUR '000
1,273	0	1,766,323	50,374
1,359	(68,491)	0	137
2,632	(68,491)	1,766,323	50,511
242	(1,922)	231,928	(430)
290	(4,581)	330,586	5,042
48	(2,658)	102,523	5,472
(2,437)	0	1,411	0
22	(1,309)	229,996	1,279

Other	Consolidation	Continuing operations	Discontinued operations	Reconciliation	Group
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
441	(32,765)	1,554,717	36,076	372,656	1,963,449
823	(14,244)	481,117	34,550	681,441	1,197,108
734	0	24,738	0	0	24,738

Other	Consolidation	Continuing operations	Discontinued operations
EUR '000	EUR '000	EUR '000	EUR '000
905	0	1,217,993	37,486
1,213	(66,435)	0	18
2,118	(66,435)	1,217,993	37,504
87	(1,568)	114,207	(13,536)
135	(3,997)	187,881	(5,864)
49	(2,431)	77,688	7,672
327	0	2,399	0
56	(2,128)	150,399	1,332

Other	Consolidation	Reconciliation	Group
EUR '000	EUR '000	EUR '000	EUR '000
439	(35,013)	183,292	1,447,211
712	(9,155)	491,420	832,540
3,281	0	0	23,226

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Segment performance is measured internally by income from operations (EBIT) as per the income statement. For the reconciliation to the income before tax please refer to the income statement.

Segment assets essentially comprise intangible assets and property, plant and equipment, inventories, trade receivables and other receivables and assets, except income tax receivables. The reconciliation column contains the assets which are not allocated to business segments and comprises financial assets, investments in securities held as current assets, deferred tax assets, current income tax receivables and cash and cash equivalents.

Segment liabilities comprise trade payables, provisions and other liabilities, except income tax provisions. The reconciliation column contains the liabilities which are not allocated to business segments and comprises the bond, bank loans and other loans, deferred tax liabilities and provisions for current income tax.

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

Information about products and services

The sales to external customers allocated by products and services are as follows:

	2010	2009
	EUR '000	EUR '000
Textile Fibers	932,446	674,273
Nonwoven Fibers	355,461	259,386
Sodium Sulfate and Black Liquor	41,145	38,192
Pulp, Wood, Energy and Others	267,335	118,371
Segment Fibers*	**1,596,387**	**1,090,222**
Segment Plastics Products	144,612	110,574
Segment Engineering	91,183	81,514
Others and Consolidation	(65,859)	(64,317)
Group	**1,766,323**	**1,217,993**
*Thereof		
Lenzing Viscose®	866,988	594,564
Lenzing Modal® (including Lenzing FR®)	193,394	182,473
TENCEL®	227,525	156,622
Sodium Sulfate and Black Liquor	41,145	38,192
Pulp, Wood, Energy and Others	267,335	118,371
Segment Fibers	**1,596,387**	**1,090,222**

Information about geographical areas

Sales to external customers 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	
	2010	2009	31/12/2010	31/12/2009	2010	2009
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Continuing operations						
Austria	153,748	144,145	759,666	734,263	88,835	65,896
Europe*	672,390	447,090	278,910	131,896	69,992	8,698
Asia	751,271	499,033	491,816	0	69,991	74,537
The Americas	149,745	90,932	24,325	368,515	1,178	1,268
Other	39,169	36,793	0	29,245	0	0
Reconciliation	0	0	372,656	183,292	0	0
Subtotal	**1,766,323**	**1,217,993**	**1,927,373**	**1,447,211**	**229,996**	**150,399**
Discontinued operations						
Austria	1,273	933	0	0	0	0
Europe*	34,411	27,121	28,636	0	1,119	831
Asia	2,658	1,830	0	0	0	0
The Americas	10,952	6,351	7,440	0	160	501
Other	315	506	0	0	0	0
Subtotal	**49,609**	**36,741**	**36,076**	**0**	**1,279**	**1,332**
Total	**1,815,932**	**1,254,734**	**1,963,449**	**1,447,211**	**231,275**	**151,731**

The products of the Group are marketed globally. The production lines of segment Fibers are located in Austria. The main site, Lenzing, has an annual capacity of 260,000 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 Purwakarta, Indonesia, has an annual capacity of 240,000 tons, the plant in Nanjing, China, has an annual production capacity of 80,000 tons. The pulp production plants are located in Lenzing, Austria (289,000 tons) and in Paskov, Czech Republic (280,000 tons of paper pulp). The production facilities of the other segments are located in Lenzing, Austria and those of discontinued operations in Munderkingen and Affolterbach, both Germany, in Plana, Czech Republic, and in Lexington, USA.

*) Europe without Austria including Turkey

Notes

Note 7. Sales

Compared to 2009, sales increased by 45.0% to EUR 1,766,323 thousand due to an increase of fiber shipments as well as due to higher selling prices for fiber. The recovery of the fiber market starting in the 2nd half of 2009 continued in 2010.

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:

	2010	2009*
	EUR '000	EUR '000
Foreign currency gains	4,199	12,951
Revenues from investment grants	3,865	4,013
Income from the disposal of fixed assets	75	2,945
Revenues from government grants for emission allowances	3,488	3,148
Refund for services rendered and maintenance costs	4,924	3,250
Revenues from staff canteen	1,722	1,248
Insurance compensation	1,178	723
Rental income	2,433	1,935
Green energy bonus	7,184	0
Sundry operating income	14,457	4,939
	43,525	**35,152**

*) Values adjusted according to IFRS 5

Note 11. Personnel expenses

This heading comprises:

	2010	2009[1]
	EUR '000	EUR '000
Wages and salaries	201,081	179,217
Expenses for severance payments	5,250	6,615
Pension expense	4,397	4,088
Statutory security contributions	44,466	41,036
Voluntary social spending	4,017	3,828
	259,211	**234,784**

Collective bargaining agreements for the Austrian sites resulted in an increase of 1.19% as of 1 May 2010. Similar agreements at the subsidiaries resulted in increases of 2.0% in the UK, 4.0% in Czech Republic and 5.72% 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[2] employed:

Number of employees	2010	2009
Average	5,889	5,562
As at 31 December	6,143	5,634

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 102,523 thousand (2009: EUR 77,688 thousand) includes impairment losses of EUR 12,626 thousand. (2009: EUR 1,949 thousand) (please refer to notes 19 and 20.)

[1] Values adjusted according to IFRS 5 [2] Including discontinued operations as at 31 December 2010: 6,530 (31 December 2009: 6,021)

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Note 13. Other operating expenses

This heading comprises expenses related to operating activities that do not fall under another heading according to the total expenditure format:

	2010	2009*
	EUR '000	EUR '000
Freight outward	61,674	43,438
Commissions and advertising costs	22,042	18,240
Service and maintenance and other purchased services	45,157	15,823
Insurance	9,251	7,135
Travel expenses	7,452	5,276
Legal, audit and consultancy fees	8,630	5,693
Rentals and leases	3,795	3,857
Waste disposal	4,971	3,274
Loss from the disposal of fixed assets	1,559	3,247
Emission allowances	3,618	2,634
Other	49,721	31,872
	217,870	**140,489**

The expenses for the audit of the individual financial statements of Lenzing AG and for the audit of the Lenzing Group consolidated financial statements recognized in the period amount to EUR 243 thousand (2009: EUR 230 thousand), for tax advice they amount to EUR 176 thousand (2009: EUR 161 thousand).

Note 14. Income from operations (EBIT)

EBIT improved from EUR 114,207 thousand to EUR 231,928 thousand, which equals an increase of 103.1%. Increased quantities of fiber sales and higher selling prices for fiber as well as the acquisition of Biocel significantly influenced the increase of the result.

In 2010 research and development costs of EUR 21,962 thousand (2009: EUR 19,334 thousand) were recognized in the operating result.

*) Values adjusted according to IFRS 5

Note 15. Income from investments in associates

The income from investments in associates of EUR 1,411 thousand (2009: EUR 2,399 thousand) comprises the Group's share in the period result of the associated companies as well as the impairment of the carrying amount of Lenzing Papier GmbH.

Note 16. Other investment income and finance costs

	2010	2009*
	EUR '000	EUR '000
Interest income from		
bank deposits, long-term loans and other receivables	2,114	1,713
available-for-sale investments	855	535
Transfers to profit or loss on sale of available-for-sale investments	-	(35)
Write-off of long-term loans	(2,349)	(565)
Result from the sale of available-for-sale investments	(25)	(1)
Net exchange gains/losses from financial assets	1,121	(865)
	1,716	**782**

	2010	2009*
	EUR '000	EUR '000
Exchange differences from financial liabilities	207	1,642
Interest and other expense	(16,258)	(15,551)
	(16,051)	**(13,909)**

*) Values adjusted according to IFRS 5

Notes

Note 17. Income taxes

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

	2010	2009*
	EUR '000	EUR '000
Current tax expense		
relating to current year	39,099	25,134
over-/underprovided in previous years	(758)	654
	38,341	**25,788**
Deferred tax		
relating to current year	3,622	(2,900)
relating to prior periods	(1,760)	(1,427)
Losses incurred during the business year for which no deferred tax asset was recognized	-	1,533
	1,862	**(2,794)**
	40,203	**22,994**

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

	2010	2009*
	EUR '000	EUR '000
Income before tax from continuing operations	**216,864**	**102,917**
Tax at Austrian tax rate (25%)	54,216	25,729
Tax free income and tax allowances (in particular allowances for research and development)	(1,058)	(1,247)
Non-deductable expenses and withholding taxes	560	431
Income from investments in associates	(353)	(609)
Effect of different tax rates of subsidiaries	(6,638)	811
Changes of tax rates	83	(145)
Tax expense/income relating to prior periods	(2,519)	(2,777)
Exchange rate differences between functional and local currency	(2,588)	(436)
Effect of changes in tax losses and other temporary differences not recognized as deferred tax asset	(1,614)	1,097
Tax effect of puttable non-controlling interest	535	140
Other	(421)	-
Income tax expense recognized in profit or loss	**40,203**	**22,994**

This is equivalent to an average tax rate of 18.5% (2009: 22.3%).

As at 31 December 2010 tax loss carry-forwards amount to EUR 38,831 thousand (2009: EUR 43,621 thousand). In accordance with IAS 12.35 no deferred tax asset was recognized for some parts of the unused losses (EUR 32,405 thousand; 2009: EUR 25,682 thousand). The losses are available indefinitely for offset against future taxable profits.

*) Values adjusted according to IFRS 5

Note 18. Earnings per share

At 10 December 2010 a stock split with a proportion of 1:7 was determined by the general shareholders' meeting of Lenzing AG (entry in the commercial register at 22 December 2010). Thereby the number of shares in circulation was increased from 3,675,000 to 25,725,000. To ensure the comparability of earnings per share for the presented periods the number of shares was adjusted for the financial year 2009 retrospectively to the current level in accordance with IAS 33.28.

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

	2010	2009[1]
	EUR '000	EUR '000
Profit used in the computation of earnings per share from continuing operations	165,841	77,489
Profit from discontinued operations attributable to shareholders of Lenzing AG	(6,723)	(13,120)
Profit attributable to shareholders of Lenzing AG used in the computation of earnings per share	**159,118**	**64,369**
Number of shares	25,725,000	25,725,000[2]
Earnings per share (EUR)	EUR	EUR
from continuing operations	6.45	3.01
from discontinued operations	(0.26)	(0.51)
Earnings per share	6.19	2.50

Note 19. Intangible assets

Please refer to table "Development of fixed assets" (page 182 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 6,768 thousand as at 31 December 2010 (31 December 2009: EUR 19,578 thousand) includes EUR 1,790 thousand (31 December 2009: EUR 13,195 thousand) for items developed internally.

Development expenses relating to products with strongly increasing requirements were impaired in the amount of EUR 11,885 thousand (2009: EUR 0.00 thousand) in the reporting period. Other intangible assets were impaired in the amount of EUR 639 thousand (2009: EUR 771 thousand).

1) Values adjusted according to IFRS 5 2) After stock split

Notes

In the business year goodwill developed as follows:

	2010	2009
	EUR '000	EUR '000
Balance as at 1/1	68,439	75,575
Amounts additionally recognized from acquisition of subsidiaries in the business year (please refer to note 4)	10,149	0
Currency translation adjustments	5,325	(1,917)
Reclassification to discontinued operations	(3,000)	0
Accumulated impairment losses	0	(5,219)
Balance as at 31/12	**80,913**	**68,439**

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. The tests identified impairment losses on goodwill in the amount of EUR 5,219 thousand in the Business Unit Filaments in the previous year.

The impairment losses were recognized in the income statement under the heading "Amortization of intangible assets and depreciation of property, plant and equipment".

Note 20. Property, plant and equipment

Please refer to table "Development of fixed assets" (page 182 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).

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 269,974 thousand (31 December 2009: EUR 241,459 thousand).

Purchase commitments

Open purchase orders for the delivery of property, plant and equipment as at 31 December 2010 came to EUR 53,447 thousand (31 December 2009: EUR 36,676 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. In addition, the conditions to sell the assets in the market are estimated. Management made these assumptions by cautious extrapolation of previous developments. Testing identified impairment losses in the amount of EUR 102 thousand (2009: EUR 1,736 thousand) that were recognized in the income statement under the heading "Amortization of intangible assets and depreciation of property, plant and equipment".

Note 21. Investments in associates

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

	31/12/2010	31/12/2009
	EUR '000	EUR '000
EQUI-Fibres Beteiligungsgesellschaft mbH, Krefeld, Germany	20,204	16,374
LKF Tekstil Boya Sanayi ve Tikaret A.S., Istanbul, Turkey	-	-
WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H., Wien, Austria	735	736
RVL Reststoffverwertung Lenzing GmbH, Lenzing, Austria	36	36
Lenzing Papier GmbH, Lenzing, Austria	-	2,544
PT Pura Golden Lion, Jakarta, Indonesia	3,742	3,536
Wood Paskov s.r.o., Paskov, Czech Republic	21	-
	24,738	**23,226**

The Group's share in the income after tax of these companies is shown in table "Development of fixed assets" (page 182 pp) as either write-up or depreciation.

Notes

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

	EQUI	LKF*	WWE	RVL	LPP*	PGL	LWP
2010	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Sales	164,820	0	0	10,061	64,571	0	178
Net income/loss	8,568	(29)	(7)	1	(1,888)	(23)	3
31/12/2010	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Non-current assets	52,115	1,916	0	0	9,258	2,448	4
Current assets	61,116	101	2,995	95	24,685	2,349	92
Non-current liabilities	19,823	1,804	0	0	18,500	0	0
Current liabilities	45,329	1	57	23	9,691	32	64
Government grants	3,442	0	0	0	24	0	0
Equity	44,637	212	2,938	72	5,728	4,765	32

	EQUI	LKF	WWE	RVL	LPP	PGL
2009	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Sales	129,112	0	0	9,668	65,728	0
Net income/loss	4,757	(40)	(15)	3	548	(1)
31/12/2009	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Non-current assets	51,928	1,917	0	0	9,541	2,253
Current assets	52,382	123	2,995	162	20,954	2,059
Non-current liabilities	25,761	1,809	0	0	12,121	0
Current liabilities	41,602	3	50	91	10,618	63
Government grants	822	0	0	0	47	0
Equity	36,125	228	2,945	71	7,709	4,249

*) Preliminary

Note 22. Other financial assets

Please refer to table “Development of fixed assets” (page 182 pp) for a breakdown and the development of other financial assets.

Securities held as fixed assets

Securities are valued at market prices.

2010	Market value 31/12	Average effective interest rate	Income for the business year
	EUR '000	in %	EUR '000
Austrian federal bonds	15,843		
Bank bonds	33,630		
Other securities	15,889		
	65,362	2.46	855

2009	Market value 31/12	Average effective interest rate	Income for the business year
	EUR '000	in %	EUR '000
Austrian federal bonds	6,620		
Other securities	7,875		
	14,495	6.90	535

EUR 51,400 thousand of the funds from own bond issuance were invested in fixed-interest bonds with maturities between 12 and 18 months. Securities were valued individually in order to determine exchange rate gains and losses.

Loans

The loans of EUR 1,954 thousand (31 December 2009: EUR 4,519 thousand) included under this heading are granted to third parties.

Notes

Note 23. Other non-current assets

	31/12/2010	31/12/2009
	EUR '000	EUR '000
Other long-term financial assets		
Long-term receivables	970	822
Other non-current assets		
Share held in a non-profit housing society	1,150	1,150
Pension assets	65	59
Prepaid expenses and deferred costs	290	148
	1,505	**1,357**
	2,475	**2,179**

Note 24. Inventories

	31/12/2010	31/12/2009
	EUR '000	EUR '000
Raw materials and supplies	148,283	97,100
Work in progress	9,788	9,336
Finished goods produced and merchandise held for resale	62,559	67,781
Down payments	2,131	1,399
	222,761	**175,616**

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

	31/12/2010	31/12/2009
	EUR '000	EUR '000
Trade receivables	183,007	119,622
Provisions for doubtful accounts	(5,893)	(2,763)
	177,114	**116,859**
Amounts due from customers under construction contracts (please refer to note 26)	4,409	1,650
	181,523	**118,509**

The carrying amount of trade receivables pledged or assigned as collateral for financial liabilities is EUR 93,377 thousand (31 December 2009: EUR 62,027 thousand).

Note 26. Construction contracts

Heading "Trade receivables" includes amounts due from customers under construction contracts of EUR 4,409 thousand (2009: EUR 1,650 thousand).

At 31 December 2010 aggregate costs incurred under ongoing construction contracts and unrealized recognized profits, less recognized losses, amounted to EUR 5,401 thousand (31 December 2009 EUR 8,446 thousand). Progress billings and advances received from customers under ongoing construction contracts amounted to EUR 2,482 thousand (31 December 2009: EUR 7,340 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 1,490 thousand as at 31 December 2010 (31 December 2009: EUR 544 thousand).

Notes

Note 27. Other receivables and assets

Other receivables and assets comprise:

	31/12/2010		31/12/2009	
		EUR '000		EUR '000
Other short-term financial assets				
Tax receivables		24,945		20,145
Down payments for derivatives and closed positions	2,365		1,672	
Derivative financial instruments (open positions)	4,317	6,682	1,172	2,844
Debit balances on creditors		2,271		948
Government grants		1,341		1,875
Recharge of maintenance costs		3,939		3,108
Insurance compensation		262		672
Other		9,468		2,594
		48,908		**32,186**
Other current assets				
Payments in advance		3,330		2,418
Emission allowances		4,534		2,846
Prepaid expenses and deferred costs		1,858		1,600
		9,722		**6,864**
		58,630		39,050

Note 28. Investments held as current assets

As at 31 December 2010 as well as at 31 December 2009 the available-for-sale investments (money market investments) held as current assets were stated at their market value.

	Market Value in EUR '000		Average yield	
	31/12/2010	31/12/2009	2010	2009
Bonds	5.125	19.924	1,15%	1,33%

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

Note 29. Equity

Common stock and capital reserve

The common stock of Lenzing AG amounts to EUR 26,717,250.00 as at 31 December 2010. At 10 December 2010 a stock split with a proportion of 1:7 was determined (entry in the commercial register at 22 December 2010), so that the common stock is divided into 25,725,000 no-par-value shares now (31 December 2009: 3,675,000). The share of common stock that is allotted to one no-par-value share amounts to about EUR 1.04. Each ordinary share is of equal value and holds equal rights and duties. The share capital is fully paid. No other classes of shares are issued.

The resolution passed by the general shareholders' meeting of 10 December 2010 authorizes the management board – together with the consent of the supervisory board – to increase the common stock within 5 years by a maximum amount of EUR 13,358,625.00 (equals 12,862,500 ordinary shares or 50% of common stock) for contribution in cash or in kind ("authorized capital stock").

Furthermore the management board was authorized with the resolution passed by the general shareholders' meeting mentioned above to issue convertible bonds, which grant or intend a purchase right or exchange obligation respectively, for up to 12,862,500 ordinary shares (equals 50% of common stock) with the consent of the supervisory board until 9 December 2015 at the latest ("contingent capital").

Notes

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:

	31/12/2010	31/12/2009
	EUR '000	EUR '000
Revenue reserve of Lenzing AG	217,447	255,847
Accumulated profit of Lenzing AG	79,880	51,502
Retained earnings of the subsidiaries and effects of adjusting the financial statements of Lenzing AG and its subsidiaries to IFRS	316,869	196,950
Total	**614,196**	**504,299**

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 2010 the parent's accumulated profit was EUR 79,880 thousand.

	EUR '000
After allocation/dissolution of reserves business year 2010 of Lenzing AG ends with a net income of	79,828
Add: profit carried forward from 2009 of	52
Total accumulated profit	**79,880**

The management board proposes that:

	EUR '000
A dividend of EUR 1.55 per share be paid for the 25,725,000 shares which in total would amount to	39,874
The balance to carry forward to next year be	**40,006**

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.

Non-controlling interests

Non-controlling interests represent the share of non-controlling shareholders in the equity and the net income of the consolidated subsidiaries. Non-controlling shareholders hold significant interests in PT. South Pacific Viscose.

In prior financial statements the capital share attributable to non-controlling shareholders of Lenzing (Nanjing) Fibers Co., Ltd. and European Precursor GmbH was presented as non-controlling interests within equity. But according to IFRS this capital share is a liability due to time limitations under corporate law. This capital share of non-controlling shareholders is presented in the position “Puttable non-controlling interests” with the amount of the proportionate net assets. Changes of net assets attributable to non-controlling shareholders are presented in the position “Allocation of profit or loss to puttable non-controlling interests” in the income statement. Further information about the retrospective adjustment of comparative information is included in note 3.

Notes

Note 30. Government grants

The amount reported under this heading essentially represents grants received from the public sector to promote investment in economically underdeveloped regions, grants for investment in environmental protection projects and other grants aimed at stimulating capital expenditure, such as investment tax grants.

As the conditions attached to these grants are being adhered to, it is considered unlikely 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 reporting date in the amount of EUR 918 thousand (31 December 2009: EUR 407 thousand).

Note 31. Bond, liabilities with banks and other loans

These comprise the following as at 31 December:

2010	Currency	Nominal amount '000	Carrying amount EUR '000	Average effective interest rate in %
Bond				
Fixed interest	EUR	120,000	119,295	3.91
			119,295	
Liabilities with banks				
Loans:				
Fixed interest	EUR	116,300	116,300	3.71
Variable interest	EUR	195,696	195,696	1.98
	USD	130,069	97,259	3.59
	CNY	110,500	12,536	5.85
Working capital loans*				
variable interest	EUR	25,107	25,107	1.24
	CNY	30,000	3,403	5.49
			450,301	
Other loans				
Fixed interest	EUR	3,144	3,144	2.15
Fixed and variable interest	EUR	36,400	36,400	1.47
Variable interest	EUR	544	544	3.23
	USD	2,842	2,124	2.88
			42,212	
Lease payables				
Fixed interest	EUR	986	986	4.00
			986	
Total financial liabilities			**612,794**	
Short-term			60,474	
Long-term			552,320	

*) Revolving credits and current accounts

Notes

2009	Currency	Nominal amount '000	Carrying amount EUR '000	Average effective interest rate in %
Liabilities with banks				
Loans:				
Fixed interest	EUR	118,753	118,753	3.54
Variable interest	EUR	124,026	124,026	3.16
	USD	133,931	92,948	3.03
	CNY	180,500	18,350	6.35
Working capital loans*				
variable interest	EUR	34,562	34,562	2.10
	CNY	79,550	8,087	5.35
			396,726	
Other Loans				
Fixed interest	EUR	3,955	3,955	2.08
Fixed and variable interest	EUR	35,668	35,668	1.56
Variable interest	EUR	1,801	1,801	2.92
	USD	2,760	1,915	4.25
			43,339	
Lease payables				
Fixed interest	EUR	938	938	4.00
	USD	31	22	4.06
			960	
Total financial liabilities			**441,025**	
Short-term			40,723	
Long-Term			400,302	

In the reporting year a bond with a maturity of 7 years and a fixed interest rate of 3.875% was issued.

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.

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

"Other loans" comprise mainly loans by the Austrian Research Promotion Fund and the ERP Fund as well as loans from non-controlling shareholders.

*) Revolving credits and current accounts

EUR 161,507 thousand (31 December 2009: EUR 168,878 thousand) of the total financial liabilities are secured by mortgages and other liens on property, plant and equipment. Financing the purchase price of Biocel Paskov a.s. required to pledge the acquired shares.

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 1.313 thousand as at 31 December 2010 (31 December 2009: 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	
	2010	2009	2010	2009
	EUR ‘000	EUR ‘000	EUR ‘000	EUR ‘000
Within one year	0	8	0	7
More than one to five years	0	17	0	15
More than five years	2,167	2,167	986	938
Less:				
Future finance charges	(1,181)	(1,232)	0	0
Present value of lease obligation	**986**	**960**	**986**	**960**

Commitments from finance leases are included in the item “Other loans” in the statement of financial position.

Contingent rent to the amount of EUR 427 thousand was recognized as expense in 2010 (2009: EUR 556 thousand).

Notes

Note 33. Deferred taxes

In accordance with IAS 12 deferred tax assets or liabilities generally have to be recognized for all differences between the carrying amounts of assets and liabilities in the statement of financial position 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 items of the statement of financial position:

	31/12/2010	31/12/2009
Deferred tax assets	EUR '000	EUR '000
Intangible fixed assets	77	246
Property, plant and equipment	1,805	552
Financial assets	7,707	1,626
Current assets	3,586	3,370
Government grants	1,256	83
Provisions	12,983	10,718
Liabilities	123	485
Tax loss carry-forwards	10,784	12,256
	38,321	**29,336**
Valuation allowance	(8,996)	(6,708)
Total deferred tax assets	**29,325**	**22,628**
Offset against deferred tax liabilities	(19,175)	(19,629)
Net deferred tax assets	**10,150**	**2,999**

	31/12/2010	31/12/2009
Deferred tax liabilities	EUR '000	EUR '000
Intangible fixed assets	447	4,312
Property, plant and equipment	36,151	30,058
Financial assets	732	213
Current assets	5,340	3,024
Accelerated depreciation for taxation purposes	6,713	2,303
Government grants	1,715	654
Liabilities	4,950	5,691
	56,048	**46,255**
Offset against deferred tax assets	(19,175)	(19,629)
Net deferred tax liabilities	**36,873**	**26,626**

Deferred taxes developed as follows:

	31/12/2010	31/12/2009	Change
	EUR '000	EUR '000	EUR '000
Deferred tax assets	10,150	2,999	7,151
Deferred tax liabilities	(36,873)	(26,626)	(10,247)
Net	**(26,723)**	**(23,627)**	**(3,096)**

Thereof:	
resulting from business combinations	(3,530)
reclassified to discontinued operations	3,184
recognized in other comprehensive income	(412)
currency translation adjustment	(476)
recognized in profit or loss	(1,862)
	(3,096)

At both 31 December 2010 and 31 December 2009, deferred tax assets were only recognized to the extent to which it will be 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:

2010	Balance as at 1/1	Currency translation adjustment	Reclassification	Acquisition of subsidiaries
	EUR '000	EUR '000	EUR '000	EUR '000
Severance payments	51,549	5	0	59
Pensions	29,978	568	0	0
Anniversary bonuses	11,763	23	0	1,190
Unconsumed vacation	6,650	54	0	0
Restructuring	4,438	0	(230)	0
Other personnel costs	25,691	356	0	0
Guarantees and warranties	2,042	73	7,314	0
Anticipated losses and other risks	20,625	186	0	0
Emission allowances	2,492	3	0	0
Other	36,937	867	(7,084)	680
Provisions	**192,165**	**2,135**	**0**	**1,929**

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

The amount provided for anticipated losses and other risks in the reporting period mainly relates to obligations to render infrastructure services to third parties.

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Reclassification to discontinued operations	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	EUR '000
0	(4,769)	(4)	6,639	53,479	1,965	51,514
(3,741)	(2,342)	0	3,391	27,854	1,928	25,926
0	(2,055)	(3)	988	11,906	866	11,040
(139)	(6,349)	0	7,137	7,353	7,353	0
0	(1,062)	(3,146)	0	0	0	0
(840)	(21,475)	(501)	29,990	33,221	33,221	0
(88)	(175)	(334)	758	9,590	9,590	0
(41)	(1,810)	(3,621)	3,479	18,818	11,090	7,728
0	(2,296)	0	3,492	3,691	3,691	0
(992)	(17,867)	(12,833)	92,706	92,414	92,414	0
(5,841)	**(60,200)**	**(20,442)**	**148,580**	**258,326**	**162,118**	**96,208**

Other provisions essentially include those for services rendered but not invoiced, compensation for profit cuts, discounts and rebates yet to be granted, obligatory maintenance costs, legal, auditing and consultancy as well as provisions for restoration and infrastructure measures relating to planned investments. The site in Lenzing has been used for industrial purposes over decades and carries the inherent risk of environmental damages therefore. In 1990 Lenzing AG was informed that there is a suspected contaminated area, which could be polluted due to its former use as a sewage pond. The entity has sealed the area to avoid contamination of ground water.

2009	Balance as at 1/1	Currency translation adjustment	Reclassification	Acquisition of subsidiaries
	EUR '000	EUR '000	EUR '000	EUR '000
Severance payments	55,215	0	0	0
Pensions	30,853	358	0	0
Anniversary bonuses	13,009	0	(408)	0
Unconsumed vacation	8,017	(1)	0	0
Restructuring	2,886	0	0	0
Other personnel costs	23,615	58	400	0
Guarantees and warranties	502	12	0	0
Anticipated losses and other risks	8,626	165	0	0
Emission allowances	2,740	0	0	0
Other	32,322	(378)	8	0
Provisions	**177,785**	**214**	**0**	**0**

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

Reclassification to discontinued operations	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	EUR '000
0	(5,946)	(148)	2,428	51,549	1,502	50,047
0	(2,296)	(680)	1,743	29,978	1,934	28,044
0	(1,012)	(149)	323	11,763	1,015	10,748
0	(8,006)	0	6,640	6,650	6,650	0
0	0	(2,886)	4,438	4,438	4,438	0
0	(22,226)	(399)	24,243	25,691	25,629	62
0	(163)	(103)	1,794	2,042	1,972	70
0	0	0	11,834	20,625	13,060	7,565
0	(2,740)	0	2,492	2,492	2,492	0
0	(15,109)	(5,975)	26,069	36,937	36,937	0
0	**(57,498)**	**(10,340)**	**82,004**	**192,165**	**95,629**	**96,536**

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 (2010 discontinued operations) 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.

Notes

The principal applied assumptions are:

Actuarial assumptions		
Discount rate p. a. in %	2010	2009
Austria	4.5	4.5
Germany	4.5	4.5
USA	5.5	6.1
Indonesia	9.0	10.8
Hong Kong	3.0	2.6
Estimated future salary and pension increases p. a. in %		
Austria	3.0	3.0
Germany	2.0 - 3.5	2.0 - 4.0
USA	0.0	0.0
Indonesia	8.0	8.0
Hong Kong	4.0	3.5
Expected rate of return on plan assets p. a. in %		
Austria	4.7	4.7
Germany	4.0	4.0
USA	7.5	7.5
Indonesia	N/A	N/A
Hong Kong	8.0	7.0

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

	2010	2009
	EUR '000	EUR '000
Interest cost	1,815	1,903
Current service cost	513	470
Past service cost	52	42
Administrative and other costs	1	1
Expected return on plan assets	(414)	(404)
Total expense	**1,967**	**2,012**

Expenses are presented in the income statement under the heading “Personnel expenses”, namely under “Pension expenses”.

The actual gain on plan assets was EUR 485 thousand (loss 2009: EUR 713 thousand).

Actuarial gains recognized in other comprehensive income in 2010 came to EUR 1,189 thousand (gains 2009: EUR 1,020 thousand). Accumulated actuarial losses as at 31 December 2010 came to EUR 7,309 thousand (31 December 2009: EUR 8,498 thousand).

The amount presented in the statement of financial position as obligation from defined benefit pension plans (DBO) is derived as follows:

	31/12/2010	31/12/2009
	EUR '000	EUR '000
Present value of obligation (DBO)	35,292	37,480
Fair value of plan assets	(7,363)	(7,391)
Deficit in plan	**27,929**	**30,089**
Unrecognized past service cost	(140)	(170)
Net amount recognized in the statement of financial position	**27,789**	**29,919**
Presented as:		
Nun-current assets	(65)	(59)
Long-term provision	25,926	28,044
Short-term provision	1,928	1,934
	27,789	**29,919**

Notes

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

	2010	2009
	EUR '000	EUR '000
Present value of obligation (DBO) as at 1/1	**37,480**	**37,997**
Interest Cost	1,815	1,903
Current Service Cost	513	470
Actuarial (gain)/loss	1,201	(767)
Currency translation adjustment	799	318
Benefits paid	(2,339)	(2,441)
Discontinued operations	(4,177)	0
Present value of obligation (DBO) as at 31/12	**35,292**	**37,480**
Fair value of plan assets as at 1/1	**7,391**	**6,951**
Contributions	112	193
Administrative and other costs	(1)	(1)
Expected return on plan assets	414	404
Actuarial (loss)/gain	12	253
Benefits paid	(350)	(338)
Currency translation adjustment	220	(71)
Discontinued operations	(435)	0
Fair value of plan assets as at 31/12	**7,363**	**7,391**

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

	2010	2009
	EUR '000	EUR '000
Equity instruments	2,292	1,766
Debt instruments	1,074	1,002
Insurance policies qualifying as plan assets	4,414	4,496
Other assets	18	127
Discontinued operations	(435)	0
Balance as at 31/12	**7,363**	**7,391**

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

	2010	2009	2008	2007	2006
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Present value of defined benefit obligation (DBO)	35,292	37,480	37,997	35,505	31,100
Fair value of plan assets	(7,363)	(7,391)	(6,951)	(7,705)	(7,265)
Deficit	**27,929**	**30,089**	**31,046**	**27,800**	**23,835**
Experience adjustments gain/(loss):					
on present value of obligation (DBO)	622	362	(1,527)	(343)	(18)
on plan assets	(17)	339	(1,038)	58	44

The Group expects to make contributions of EUR 205 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 2010 came to EUR 2,419 thousand (2009: EUR 2,277 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:

	2010	2009
	EUR '000	EUR '000
Present value of obligation (DBO) as at 1/1	**51,549**	**55,215**
Interest cost	2,266	2,431
Current service cost	2,337	2,709
Total expense	**4,603**	**5,140**
Acquisition of subsidiaries	1,261	0
Benefits paid	(4,831)	(5,946)
Actuarial (gain)/loss	888	(2,860)
Currency translation adjustment	9	0
Present value of obligation (DBO) as at 31/12	**53,479**	**51,549**
Number of eligible persons	2,399	2,126
Actuarial assumptions		
Discount rate in % p.a.	4.5	4.5
Estimated future salary increases in % p.a.	3.0	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 gains recognized in other comprehensive income came to EUR 888 thousand (gains 2009: EUR 2,860 thousand). Accumulated actuarial losses as at 31 December 2010 came to EUR 3,934 thousand (31 December 2009: EUR 4,822 thousand).

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

	2010	2009	2008	2007	2006
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Present value of defined benefit obligation (DBO)	53,479	51,549	55,215	51,817	50,720
Experience adjustments gain/(loss) on present value of obligation (DBO)	(840)	(138)	(3,505)	(1,642)	(169)

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 in to a separate precautionary fund for employees ("Mitarbeitervorsorgekasse"). In 2010 contributions of EUR 576 thousand (2009: EUR 553 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:

	2010	2009
	EUR '000	EUR '000
Present value of obligation (DBO) as at 1/1	**11,763**	**13,009**
Interest cost	572	564
Current service cost	628	626
Actuarial (gain)/loss	(186)	(1,016)
Total expense	**1,014**	**174**
Acquisition of subsidiaries	7	0
Reclassification to provision for other personnel costs	0	(408)
Benefits paid	(879)	(1,012)
Currency translation adjustment	1	0
Present value of obligation (DBO) as at 31/12	**11,906**	**11,763**
Number of eligible persons	3,065	2,660
Actuarial assumptions		
Discount rate in % p.a.	4.5	4.5
Estimated future salary increases in % p.a.	2.5 - 3.0	2.5 - 3.0

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

Notes

Note 35. Other liabilities

Other liabilities comprise:

	31/12/2010	31/12/2009
Other long-term financial liabilities	EUR '000	EUR '000
Early retirement	1,006	831
Interest accruals	19	22
Others	-	568
	1,025	**1,421**
Other non-current liabilities		
Dividend guarantee for non-controlling interests	17,752	-
Deferred income	78	98
	17,830	**98**
Other non-current liabilities	**18,855**	**1,519**
Other short-term financial liabilities		
Tax liabilities	3,925	4,284
Social security and other statutory contributions	4,105	3,708
Payroll	4,500	4,200
Early retirement	974	1,307
Settled derivative financial instruments (closed positions)	910	-
Derivative financial instruments (open positions)	1,288	3,441
Credit balances on debtors	4,106	1,711
Sundry	10,674	5,523
	30,482	**24,174**
Other current liabilities		
Advances from customers	7,666	6,516
Deferred income	492	456
	8,158	**6,972**
Other current liabilities	**38,640**	**31,146**

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 for the purpose of a desired sustainable and high profitability and a solid structure of the statement of financial position. 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. Furthermore the authorized capital and the contingent capital allow Lenzing Group to flexibly raise further equity to make use of market opportunities arising in the future.

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.

Net financial 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) dependent 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 financial debt as the two key parameters, net financial debt and EBITDA, have become essential key control parameters for the management of the Group as well as for lending banks over the past years. Therefore a continuing optimum development of the Lenzing Group is only ensured by very good equity financing power (EBITDA) being the basis for enhanced debt capacity.

Net financial debt and EBITDA are as follows:

Net financial debt	2010	2009
	EUR '000	EUR '000
Interest bearing financial debt[1]	612,794	441,025
Cash and cash equivalents (-)	(305,578)	(125,353)
Net financial debt	**307,216**	**315,672**

EBITDA[2]	2010	2009
	EUR '000	EUR '000
EBIT	231,928	114,207
Depreciation (+)	102,523	77,688
Reversal of government grants (-)	(3,865)	(4,014)
EBITDA	**330,586**	**187,881**
Net financial debt / EBITDA	**0.9**	**1.7**

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.

[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

36.3. Categories of financial instruments

The carrying amounts, fair values and the valuation of financial assets by valuation category were as follows as at 31 December 2010 and 31 December 2009 respectively:

	31/12/2010		Valuation according to IAS 39			
	Carrying amount EUR '000	Fair Value EUR '000	At amortized cost	At cost	At fair value through profit or loss	At fair value through other comprehensive income
Loans and receivables at amortized cost:						
Cash and cash equivalents	249,388	249,388	✔			
Trade receivables	181,523	181,523	✔			
Other financial assets – long-term loans to third parties	1,954	1,954	✔			
Other long-term financial assets – other long-term receivables	970	970	✔			
Other short-term financial assets – other short-term receivables	44,591	44,591	✔			
Available-for-sale financial assets:						
Securities held as fixed assets	65,362	65,362				✔
Investments held as current assets	5,125	5,125				✔
Other:						
Other short-term financial assets – derivative financial instruments at positive fair value (cash flow hedges)	4,214	4,214				✔
Other short-term financial assets – derivative financial instruments at positive fair value (fair value hedges)	103	103			✔	
	553,230	**553,230**				

Notes

	31/12/2009		Valuation according to IAS 39			
	Carrying amount EUR '000	Fair Value EUR '000	At amortized cost	At cost	At fair value through profit or loss	At fair value through other compre-hensive income
Loans and receivables at amortized cost:						
Cash and cash equivalents	105,429	105,429	✔			
Trade receivables	118,509	118,509	✔			
Other financial assets – long-term loans to third parties	4,519	4,519	✔			
Other long-term financial assets – other long-term receivables	822	822	✔			
Other short-term financial assets – other short-term receivables	31,014	31,014	✔			
Available-for-sale financial assets:						
Securities held as fixed assets	14,495	14,495				✔
Investments held as current assets	19,924	19,924				✔
Other:						
Other short-term financial assets – derivative financial instruments at positive fair value (cash flow hedges)	25	25				✔
Other short-term financial assets – derivative financial instruments at positive fair value (fair value hedges)	1,147	1,147			✔	
	295,884	**295,884**				

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 carrying amounts, fair values and the valuation of financial liabilities by valuation category were as follows as at 31 December 2010 and 31 December 2009 respectively:

	31/12/2010		Valuation according to IAS 39				
	Carrying amount EUR '000	Fair Value EUR '000	At amortized cost	At cost	At fair value through profit or loss	At fair value through other comprehensive income	Measurement according to IAS 17
Financial liabilities at amortized cost							
Bond	119,295	116,760	✔				
Bank loans and overdrafts	450,301	455,405	✔				
Other loans	42,212	41,082	✔				
Trade payables	135,683	135,683	✔				
Puttable non-controlling interests	29,613	29,613			✔		
Other long-term financial liabilities	18,777	18,777	✔				
Other short-term financial liabilities	29,194	29,194	✔				
Other							
Other loans – lease payables	986	986					✔
Other financial liabilities – derivative financial instruments at negative fair value (cash flow hedges)	468	468				✔	
Other financial liabilities – derivative financial instruments at negative fair value (fair value hedges)	820	820			✔		
	827,349	**828,788**					

Notes

	31/12/2009		Valuation according to IAS 39				
	Carrying amount EUR '000	Fair Value EUR '000	At amortized cost	At cost	At fair value through profit or loss	At fair value through other comprehensive income	Measurement according to IAS 17
Financial liabilities at amortized cost							
Bank loans and overdrafts	396,726	402,070	✓				
Other loans	43,339	42,051	✓				
Trade payables	95,591	95,591	✓				
Puttable non-controlling interests	20,698	20,698			✓		
Other long-term financial liabilities	1,421	1,421	✓				
Other short-term financial liabilities	20,733	20,733	✓				
Other							
Other loans – lease payables	960	960					✓
Other financial liabilities – derivative financial instruments at negative fair value (cash flow hedges)	2,822	2,822				✓	
Other financial liabilities – derivative financial instruments at negative fair value (fair value hedges)	(41)	(41)			✓		
Other financial liabilities – derivative financial instruments at negative fair value (other)	660	660			✓		
	582,909	**586,965**					

The market value of the bond was determined by the stock-market price at year-end. The market value of bank loans and overdrafts and other loans was established by discounting the future cash flows related to these liabilities with the market interest rate at the reporting date. The market value of other financial liabilities corresponds to their carrying amount, due to their short-term nature.

The following chart shows an analysis of financial instruments measured at fair value considering the valuation method. Therefore three levels of valuation methods were defined.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31/12/2010	Level 1	Level 2	Level 3	Total
Class of financial instruments	EUR '000	EUR '000	EUR '000	EUR '000
Securities, investments	70,487	0	0	70,487
Derivative financial instruments at positive fair value	560	3,757	0	4,317
Cash flow hedges	560	3,654	0	4,214
Fair value hedges	0	103	0	103
Derivative financial instruments at negative fair value	(56)	1,344	0	1,288
Cash flow hedges	(56)	524	0	468
Fair value hedges	0	820	0	820

31/12/2009	Level 1	Level 2	Level 3	Total
Class of financial instruments	EUR '000	EUR '000	EUR '000	EUR '000
Securities, investments	34,419	0	0	34,419
Derivative financial instruments at positive fair value	31	1,141	0	1,172
Cash flow hedges	31	(6)	0	25
Fair value hedges	0	1,147	0	1,147
Derivative financial instruments at negative fair value	339	3,102	0	3,441
Cash flow hedges	339	2,483	0	2,822
Fair value hedges	0	(41)	0	(41)
Other	0	660	0	660

Notes

The net result of financial instruments by valuation categories according to IAS 39 comprises net gains/losses from measurement and disposal, interest gains/losses and impairment losses and was as follows:

2010	Interest result	Result from subsequent measurement at fair value	Result from subsequent measurement (impairment)	Result on disposal	Net result (Total)
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Loans and receivables	2,114	0	(2,549)	0	(435)
Available-for-sale financial assets	855	(159)	0	(25)	671
Financial assets at fair value through profit or loss	0	659	0	0	659
Financial liabilities at amortized cost	(16,220)	0	0	0	(16,220)
	(13,251)	**500**	**(2,549)**	**(25)**	**(15,325)**

2009	Interest result	Result from subsequent measurement at fair value	Result from subsequent measurement (impairment)	Result on disposal	Net result (Total)
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Loans and receivables	1,713	0	(1,189)	0	524
Available-for-sale financial assets	535	353	0	(1)	887
Financial assets at fair value through profit or loss	0	10,755	0	0	10,755
Financial liabilities at amortized cost	(15,515)	0	0	0	(15,515)
	(13,267)	**11,108**	**(1,189)**	**(1)**	**(3,349)**

The change in bad debt provisions provided for impairment losses of loans and receivables are recognized as “Other operating expenses”. The other components of the net result of financial instruments are recognized as “Other investment income” or “Finance costs”.

36.4. Financial risk management

As an enterprise operating internationally, the Group is exposed to various financial risks and other market risks. A group-wide risk management system comprehensively governed by guidelines ensures that potential risks are identified at an early stage and valuated. Maximum risk transparency and quality of information shall be accomplished by quantifying all risk categories. The efficiency of the group-wide risk management system is regularly assessed and monitored by the internal control system and the internal audit department.

Financial risks ((credit risk, liquidity risk, foreign currency risk (particularly USD), interest rate risk)) and price risk (pulp, natural gas, aluminum) were identified as the areas of risk most significant to the Lenzing Group. Appropriate hedging arrangements are used to control and minimize those risks.

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 collaterals (guarantees, letters of credit).

The development of bad debt provisions was as follows:

	Loans (long-term and short-term)	Trade receivables	Other receivables (long-term and short-term)
	EUR '000	EUR '000	EUR '000
Bad debt provisions as at 01/01/2009	**234**	**2,570**	**0**
Utilization	0	(235)	0
Reversal	(36)	(145)	0
Addition	12	585	553
Currency translation adjustment	0	(12)	0
Bad debt provisions as at 31/12/2009	**210**	**2,763**	**553**
Acquisition of subsidiaries		3,983	
Utilization	0	(388)	0
Reversal	(185)	(443)	0
Addition	2,016	41	0
Currency translation adjustment	0	28	0
Reclassification to discontinued operations	0	(91)	0
Bad debt provisions as at 31/12/2010	**2,041**	**5,893**	**553**

Notes

Aging of loans and receivables is as follows:

	Loans (long-term and short-term)	Trade receivables	Other receivables (long-term and short-term)
	EUR '000	EUR '000	EUR '000
Carrying amount as at 31/12/2010	1,954	181,523	49,878
Not impaired at the reporting date and			
not overdue	1,817	162,731	49,878
overdue up to 30 days	0	17,077	0
overdue for 31 to 90 days	0	950	0
overdue for 91 to 365 days	0	330	0
overdue for more than one year	0	167	0
Impaired	137	268	0

	Loans (long-term and short-term)	Trade receivables	Other receivables (long-term and short-term)
	EUR '000	EUR '000	EUR '000
Carrying amount as at 31/12/2009	4,519	118,509	33,008
Not impaired at the reporting date and			
not overdue	4,382	103,749	33,008
overdue up to 30 days	0	11,782	0
overdue for 31 to 90 days	0	1,222	0
overdue for 91 to 365 days	0	807	0
overdue for more than one year	0	97	1
Impaired	137	852	0

The maximum credit risk is equivalent to the carrying amount of monetary assets. These are loans receivable of EUR 1,954 thousand (31 December 2009: EUR 4,519 thousand), securities held as fixed and current assets of EUR 70,487 thousand (31 December 2009: EUR 34,419 thousand), receivables of EUR 231,401 thousand (31 December 2009: EUR 150,345 thousand) and liquid funds of 249,388 thousand (31 December 2009: EUR 105,429 thousand). In addition, the Group has assumed liability for other companies amounting to EUR 3,325 thousand (31 December 2009: EUR 5,965 thousand) of which EUR 3,325 thousand (31 December 2009: EUR 5,563 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.

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 2010 the Group had at its disposal open credit lines confirmed in writing of EUR 252,225 thousand (31 December 2009: 282,036 thousand) for financing required operating resources, as well as for covering potential shortfall caused by economic cycles.

Notes

The contractual undiscounted cash flows (interest and repayment) of financial liabilities are as follows:

	Valuation category according to IAS 39	31/12/2010	Cash flows 2011		
		Carrying amount	Fixed interest	Fixed and variable interest	Variable interest
		EUR '000	EUR '000	EUR '000	EUR '000
Financial Liabilities at Amortized Cost	Financial Liabilities at Amortized Cost (FLAC)				
Bond		119,295	4,650	0	0
Bank loans and overdrafts		450,301	4,395	0	8,353
Other loans		42,212	47	516	71
Trade payables		135,683	0	0	0
Puttable non-controlling interests		29,613	0	0	0
Other liabilities – other financial liabilities		47,971	0	0	0
Lease payables	n/a (IAS 17)	986	0	0	0
Derivative financial instruments	n/a or At Fair Value through Profit or Loss (Trading)	1,288	0	0	0
Total		**827,349**	**9,092**	**516**	**8,424**

	Cash flows 2012 to 2015				Cash flows from 2016			
Repayment	Fixed interest	Fixed and variable interest	Variable interest	Repayment	Fixed interest	Fixed and variable interest	Variable interest	Repayment
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
0	18,600	0	0	0	9,300	0	0	120,000
50,607	9,959	0	14,865	356,594	18	0	1,319	43,100
9,867	40	1,082	103	31,407	0	7	0	938
134,132	0	0	0	1,551	0	0	0	0
5,358	0	0	0	0	0	0	0	24,255
29,194	0	0	0	8,525	0	0	0	17,500
0	0	0	0	0	1,181	0	0	986
1,120	0	0	0	168	0	0	0	0
230,278	**28,599**	**1,082**	**14,968**	**398,245**	**10,499**	**7**	**1,319**	**206,779**

Notes

	Valuation category according to IAS 39	31/12/2009	Cash flows 2010		
		Carrying amount	Fixed interest	Fixed and variable interest	Variable interest
		EUR '000	EUR '000	EUR '000	EUR '000
Financial Liabilities at Amortized Cost	Financial Liabilities at Amortized Cost (FLAC)				
Bank loans and overdrafts		396,726	4,726	0	7,308
Other loans		43,339	68	553	82
Trade payables		95,591	0	0	0
Puttable non-controlling interests		20,698	0	0	0
Other liabilities – other financial liabilities		22,154	0	0	18
Lease payables	n/a (IAS 17)	960	39	0	0
Derivative financial instruments	n/a or At Fair Value through Profit or Loss (Trading)	3,441	0	0	0
Total		**582,909**	**4,833**	**553**	**7,408**

Exchange rate risk

The exchange rate risk of the Lenzing Group results from investing and operative business activities. This risk is hedged to the greatest extent 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

	Cash flows 2011 to 2014				Cash flows from 2015			
Repayment	Fixed interest	Fixed and variable interest	Variable interest	Repayment	Fixed interest	Fixed and variable interest	Variable interest	Repayment
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
31,696	9,041	0	12,626	329,001	298	0	463	36,029
9,020	55	1,306	69	31,725	0	24	0	2,594
90,360	0	0	0	5,231	0	0	0	0
0	0	0	0	9,842	0	0	0	10,856
20,733	0	0	18	1,414	0	0	0	7
7	170	0	0	15	1,023	0	0	938
3,240	0	0	0	201	0	0	0	0
155,056	**9,266**	**1,306**	**12,713**	**377,429**	**1,321**	**24**	**463**	**50,424**

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. From the budgeted net exposure for the dominating currency pair EUR/USD for the business year 2011 about 65% were hedged as at 31 December 2010. If the exchange rates of the functional currencies of the Group entities had increased or decreased 10% against the relevant foreign currencies as at 31 December 2010, the result from cash flow hedges would have been higher by EUR 17,572 thousand or lower by EUR 13,436 thousand, respectively.

Instruments for hedging exchange rate risk

Cash flow hedges are designated for sales denominated in the hedged currency and relating to the operating business of the following business year. The resulting cash flows are planned monthly and the total of cash inflows and cash outflows of a month are cleared at the close of each month. Fair

Notes

value hedges are used to hedge receivables and payables that are already recognized in the statement of financial position but where cash flows will result after the reporting date (31 December 2010).

Cash flow hedges (effective)

Gains or losses from measuring effective cash flow hedges are recognized in other comprehensive income and reclassified into operating profit or loss when the hedged transactions affect profit or loss.

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

Type of derivative financial instrument	31/12/2010				31/12/2009			
Foreign currency/ functional currency		Nominal	Market value	Maturity		Nominal	Market value	Maturity
Forward contracts		in '000 foreign currency	EUR '000	up to months		in '000 foreign currency	EUR '000	up to months
CZK purchase / EUR sale					CZK	103,250	(149.2)	12
EUR purchase / CNY sale					EUR	32,467	(1,128.6)	15
GBP purchase / CNY sale					GBP	6,989	(231.0)	15
USD purchase / CNY sale					USD	742	(2.7)	3
USD purchase / EUR sale	USD	1,216	25.5	10	USD	427	1.3	10
EUR sale / CZK purchase	EUR	38,700	(265.8)	14				
GBP sale / EUR purchase	GBP	150	(8.7)	1	GBP	1,500	(33.0)	13
USD sale / CZK purchase	USD	17,400	(169.9)	14				
USD sale / EUR purchase	USD	249,035	3,637.1	16	USD	142,327	(892.7)	13
USD sale / GBP purchase	USD	24,550	(88.1)	14	USD	10,750	(67.4)	13
Total			**3,130.1**				**(2,503.3)**	

Negative fair values of cash flow hedges for foreign currency hedging of EUR 2,421 thousand (2009: EUR 5,856 thousand) were removed from the hedging reserve and recognized in profit or loss, positive fair values of EUR 3,213 thousand (2009: EUR -2,483 thousand) were added to the hedging reserve in the reporting period.

Other cash flow hedges

For the ineffective portion of cash flow hedges an expense of EUR 660 thousand was recognized in the operating result in 2009.

Fair value hedges

From the point in time when the underlying transactions (receivables or payables) are recognized in the statement of financial position, the hedging transactions are regarded as fair value hedges. Gains and losses from fair value hedges as well as gains and losses from hedged items are recognized as income or expense in the operating result.

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

Type of derivative financial instrument	31/12/2010			31/12/2009		
Foreign currency/ functional currency		Nominal	Market value		Nominal	Market value
Forward contracts		in '000 foreign currency	EUR '000		in '000 foreign currency	EUR '000
CZK purchase / EUR sale				CZK	20,000	1.4
EUR purchase / CNY sale				EUR	8,542	70.5
GBP purchase / CNY sale				GBP	1,876	(15.8)
USD purchase / CNY sale				USD	5,226	(13.2)
USD purchase / EUR sale				USD	300	(3.2)
USD purchase / GBP sale				USD	2,000	29.0
EUR sale / CZK purchase	EUR	8,500	4.8			
USD sale / CZK purchase	USD	1,500	39.2			
USD sale / EUR purchase	USD	25,175	(799.9)	USD	29,175	720.2
USD sale / GBP purchase	USD	1,600	(21.6)	USD	7,200	247.2
USD sale / IDR purchase	USD	13,850	60.9	USD	7,650	151.2
Total			**(716.6)**			**1,187.3**

Notes

Price risk

Purchasing of natural 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.

Instruments for hedging price risk

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.

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

Type of derivative financial instrument	31/12/2010				31/12/2009			
	Nominal contract value in '000		Market value EUR '000	Maturity up to months	Nominal contract value in '000		Market value EUR '000	Maturity up to months
Natural gas futures								
	USD	5,589	56.4	24	USD	1,276	(28.2)	9
	GBP	2,965	537.7	12	GBP	3,110	(310.2)	11
	EUR	132	21.6	1	EUR	1,960	15.2	12
Aluminum futures								
					EUR	124	30.4	12
Total			**615.7**				**(292.8)**	

Negative fair values of cash flow hedges for hedging of commodity prices in the amount of EUR 310 thousand (2009: EUR 3,093 thousand) were removed from the hedging reserve and recognized in profit or loss, positive fair values of EUR 625 thousand (2009: EUR -131 thousand) were added to the hedging reserve in the reporting period.

Apart from that, the Group's business activities expose it to price risks customary within the industry which are not hedged.

Interest rate risk

Interest rate changes affect the Group's financing and investing activities. The Group has long-term securities and loans receivable with a carrying amount close to their market or fair value amounting to EUR 67,316 thousand (31 December 2009: EUR 19,014 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. All covenants existing for financing activities as at 31 December 2010 were complied with.

Had the market interest rate been 100 basis points higher (lower) in the reporting year 2010, interest expense for floating-rate liabilities would have been higher (lower) by EUR 3.126 thousand, respectively.

Notes

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:

	2010	2009
	EUR '000	EUR '000
Net income	**176,661**	**79,923**
+ Depreciation of		
property, plant and equipment and amortization of intangible assets	102,523	77,688
financial assets	2,362	565
- Release of investment grants previously recognized as deferred income	(3,865)	(4,013)
- Write-ups of financial assets	(1)	(60)
+ Charge for/- Consumption or reversal of long-term provisions	(5)	(1,759)
- Gains/+ Losses on the disposal of		
intangible assets, property, plant and equipment	1,484	303
financial assets	0	(548)
- Deferred tax income/+ deferred tax expense	1,862	(2,793)
+ Allocation of profit or loss to puttable non-controlling interests	2,140	561
- Non-cash income from associated companies	(1,411)	(2,399)
- Other non-cash income/+ expense	600	(28)
Gross cash flow	**282,350**	**147,440**

	2010	2009
	EUR '000	EUR '000
Result from discontinued operations	(6,723)	(13,120)
- Non-cash income/+ expense	17,264	6,597
Gross cash flow from discontinued operations	**10,541**	**(6,523)**

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The change in working capital of continuing operations comprises:

	2010	2009
	EUR '000	EUR '000
+ Decrease/- increase in inventories	(41,135)	31,500
+ Decrease/- increase in accounts receivable	(47,780)	29,431
- Decrease/+ increase in operating liabilities	99,509	42,010
Change in working capital	**10,594**	**102,941**

The cash flow from investing activities of continuing operations comprises:

	2010	2009
	EUR '000	EUR '000
- Acquisition of non-current assets		
Intangible assets and property, plant and equipment	(229,996)	(150,399)
Financial assets	(55,099)	(15,171)
	(285,095)	**(165,570)**
+ Proceeds from the sale/ repayment of non-current assets		
Intangible assets and property, plant and equipment	921	2,441
Financial assets	4,728	6,252
	5,649	**8,693**
+ Proceeds from the sale of securities held as current assets	0	7

Payments of puttable non-controlling interests in the amount of EUR 5,535 thousand (2009: EUR 4,998 thousand) concern payments of the non-controlling shareholders of European Precursor GmbH and Lenzing (Nanjing) Fibers Co., Ltd. on their share in capital.

Receipts from financing activities of continuing operations comprise:

	2010	2009
	EUR '000	EUR '000
+ Investment grants	6,019	2,429
+ Receipts from long-term loans and borrowings	116,039	62,858
+ Receipts from bond-issue	119,295	0
Receipts from financing activities	**241,353**	**65,287**

The Group's liquid funds comprise:

	31/12/2010	31/12/2009
	EUR '000	EUR '000
Cash	249,388	105,429
Cash equivalents	5,125	19,924
Less cash and cash equivalents included in assets of discontinued operations	0	(1,509)
Total	**254,513**	**123,844**

Notes

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 of continuing operations includes the following interest and dividend tax payments and receipts:

	2010	2009
	EUR '000	EUR '000
Interest received	1,602	1,913
Interest paid	14,775	14,891
Taxes paid	22,535	10,823

Note 38. Operating leases

The Group has commitments under operating leases of property, plant and equipment that are not recognized in the statement of financial position. Operating expenses for 2010 include leasing and rental expenses of EUR 3,679 thousand (2009: EUR 4,418 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:

	2010*	2009
	EUR '000	EUR '000
Within one year	3,226	3,342
In the following 2 to 5 years	4,850	6,288
Thereafter	672	959
Total	**8,748**	**10,589**

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 Industrieholding GmbH and B & C Privatstiftung. B & C Industrieholding 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 related parties

A tax group was formed between Lenzing AG and B & C Industrieholding GmbH and the supporting contract was concluded on 25 September 2009. The contract partners are Lenzing AG and those of its subsidiaries mentioned in the contract as group members ("Gruppenmitglied") and B & C Industrieholding GmbH as the head and taxable subject of the tax group ("Gruppenträger").

*) From continuing operations

The contract obligates Lenzing AG to pay a tax allocation to the head of the tax group. The tax allocation equals the income tax payable by Lenzing AG and its subsidiaries included in the tax group based on their taxable profits. Potential tax loss of the tax group head is taken into account. A tax loss of Lenzing AG and its included subsidiaries is kept on record and will be used to offset future taxable profits. It is agreed that a compensation for tax losses that could not be used to offset profits shall be paid at contract end.

As at 31 December 2010 the Lenzing Group recognized a provision for tax allocation of 2009 and 2010 payable to B & C Industrieholding GmbH in the amount of EUR 15,948 thousand. The tax allocation payable is presented under the heading "Provisions for current income tax" in the statement of financial position.

Business relationships with non-controlling shareholders of subsidiaries

Lenzing AG provided loans to non-controlling shareholders of subsidiaries, the outstanding balance being EUR 344 thousand as at 31 December 2010 (31 December 2009: EUR 335 thousand). The balance of the bad debt provision relating to these loans is EUR 196 thousand (31 December 2009: EUR 198 thousand).

Liabilities include loans of non-controlling shareholders amounting to EUR 342 thousand (31 December 2009: EUR 308 thousand). These are subordinated loans at variable interest. The interest rate is based on LIBOR plus a surcharge and is adjusted every six months. Furthermore the Group has other payables with non-controlling shareholder of subsidiaries of EUR 2,116 thousand (31 December 2009: EUR 227 thousand).

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

PT. Pura Golden Lion

- Loans payable

Notes

Significant transactions and outstanding balances with associated companies are:

	EQUI	LPP	PGL	RVL	LWP
2010	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Sales	56,902	10,254	0	9,754	0
Other operating income	1,067	0	0	0	18
Cost of material	(42,366)	(4)	0	0	(135)
Cost of purchased services	(10,866)	0	0	(9,754)	0
Other operating expenses	(1,084)	(10)	0	(16)	0
Interest expense	0	0	(75)	0	0
Interest income	0	15	0	0	0
31/12/2010	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Trade receivables	8,007	2,206	0	0	11
Other receivables	0	0	0	0	0
Trade payables	6,698	8	0	1	13
Loans	0	0	1,783	0	0
Other liabilities	0	0	514	0	0

	EQUI	LPP	PGL	RVL
2009	EUR '000	EUR '000	EUR '000	EUR '000
Sales	48,304	10,702	0	9,362
Other operating income	1,039	0	0	0
Cost of material	(8,012)	(5)	0	0
Cost of purchased services	(8,856)	0	0	(9,362)
Other operating expenses	(707)	(7)	0	(77)
Interest income	96	2	0	0
31/12/2009	EUR '000	EUR '000	EUR '000	EUR '000
Trade receivables	4,746	3,653	0	0
Other receivables	0	0	0	0
Trade payables	3,450	0	0	0
Loans	0	0	1,607	0
Other liabilities	597	0	477	0

Lenzing AG assumed proportionate liability for loans to a subsidiary of EQUI-Fibres Beteiligungsgesellschaft mbH (refer to note 40).

Remuneration of management and supervisory board members

The remuneration of the members of the management and supervisory boards was as follows:

	2010	2009
	EUR '000	EUR '000
Short-term employee benefits	3,118	2,023
Post-employment benefits	90	78
Total	**3,208**	**2,101**

Payments to former members of the management board or their dependents came to EUR 838 thousand in 2010 (2009: EUR 825 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:

	2010	2009
	EUR '000	EUR '000
Assumption of liability for associated companies	3,325	5,563
Assumption of liability for third parties	-	402

Moreover, the Group gave bank guarantees in the amount of EUR 4,102 thousand in 2010 (2009: EUR 1,394 thousand) for liability escrow paid. 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 statement of financial position.

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.

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Note 41. Events after the reporting period

On 18 February 2011 the plastics filaments business, which is part of the segment Plastics Products, was sold to a consortium under the lead of the Global Equity Partners Group (GEP). This partial segment was presented as discontinued operations in the consolidated financial statements.

Note 42. Direct and indirect investments of Lenzing AG as at 31 December 2010

Investment	Currency	Common stock	Ownership interest in %
Fully consolidated companies:			
ASIA Fiber Engineering GmbH, Vienna, Austria	EUR	36,336	100.00
Avit Investments Limited, Providenciales, Turks and Caicos	USD	2,201,000	100.00
Beech Investment s.r.o., Zlaté Moravce, Slovakia	EUR	6,639	100.00
Biocel Paskov a.s., Paskov, Czech Republic	CZK	280,000,000	75.00
BZL-Bildungszentrum Lenzing GmbH, Lenzing, Austria	EUR	43,604	75.00
Cellulose Consulting GmbH, Vienna, Austria	EUR	36,336	100.00
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	100.00
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 Filaments s.r.o., Sezimovo Ustí, Czech Republic	CZK	5,000,000	100.00
Hahl Inc., Lexington, SC, USA	USD	100	100.00
LENO Electronics GmbH, Lenzing, 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 Grimsby Limited, Grimsby, UK[1]	GBP	1	100.00

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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., Mobile, 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 Modi Fibers India Private Limited, Mumbai, India	INR	761,600,000	99.99
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 Technik GmbH, Lenzing, Austria	EUR	35,000	100.00
Lenzing USA Inc., Lexington, SC, USA	USD	100	100.00
Lyocell Holding Limited, 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	90.56[2]
Pulp Trading GmbH, Lenzing, Austria	EUR	40,000	100.00
Reality Paskov s.r.o., Paskov, Czech Republic	CZK	900,000	75.00
Tencel Holding Limited, Manchester, UK	GBP	1	100.00
Tencel Holding Overseas Limited, St. Helier, Jersey	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, Kelheim, Germany	EUR	2,000,000	45.00
LKF Tekstil Boya Sanayi ve Ticaret Anonim Sirketi, Istanbul, Turkey	TRY	200,000	33.34
Lenzing Papier GmbH, Lenzing, Austria	EUR	35,000	40.00
PT. Pura Golden Lion, Jakarta, Indonesia	IDR	2,500,000,000	40.00
Wood Paskov s.r.o., Paskov, Czech Republic	CZK	2,000,000	37.50
Companies that are not consolidated:[3]			
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

1) In September 2010 the British production site of Lenzing AG was incorporated in Lenzing Service Ltd., Grimsby. The entity was renamed to Lenzing Fibers Grimsby Ltd.
2) Thereof holding 4.77% indirectly through PT. Pura Golden Lion, Jakarta, Indonesia 3) 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.

Notes

Note 43. Corporate Bodies

Members of the Supervisory Board

Hermann Bell, Linz
Chairman

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

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

Helmut Bernkopf, Vienna

Josef Krenner, Linz

Walter Lederer, Vienna

Martin Payer, Leoben

Andreas Schmidradner, Vienna

Veit Sorger, Vienna

Works Council Representatives

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

Georg Liftinger
Deputy Chairman of the Company's Works Committee
Chairman of the White-Collar Workers' Council

Gerhard Ratzesberger
Deputy Chairman of the White-Collar Workers' Council

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

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Members of the Management Board

Peter Untersperger
Chairman

Friedrich Weninger

Christian Reisinger (until 31 March 2010)

Thomas G. Winkler (from 1 April 2010)

The present consolidated financial statements were released on 28 February 2011 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, 28 February 2011

The Management Board:

Peter Untersperger

Friedrich Weninger

Thomas G. Winkler

Consolidated Financial Statements 2010

Development of fixed assets 2010

	Costs					
	as at 01/01/2010 EUR '000	Acquisitions of subsidiaries 2010 EUR '000	Reclassification to discontinued operations 2010 EUR '000	Additions 2010 EUR '000	Disposals 2010 EUR '000	Reclassifications 2010 EUR '000
Development of intangible assets						
1. Concessions, industrial property rights and similar rights	41,744	735	(2,039)	1,865	(1,635)	0
thereof: internally generated	22,765	0	0	1,415	0	0
2. Goodwill	73,658	10,149	(8,218)	0	0	0
Total for intangible assets	**115,402**	**10,884**	**(10,257)**	**1,865**	**(1,635)**	**0**
Development of property, plant and equipment						
1. Land and buildings	278,991	29,366	(9,861)	4,864	(1,100)	33,136
2. Plant and machinery, fixtures, fittings and other assets	1,473,136	41,640	(13,849)	72,490	(12,585)	133,216
3. Prepayments and work under construction	140,165	2,074	(1,150)	100,333	(150)	(166,352)
Total for property, plant and equipment	**1,892,292**	**73,080**	**(24,860)**	**177,687**	**(13,835)**	**0**
Development of financial assets						
1. Investments in associates	8,421	19	0	0	0	0
2. Loans	4,729	0	0	252	(974)	(12)
3. Securities	43,596	0	(35)	54,847	(3,754)	0
Total for financial assets	**56,746**	**19**	**(35)**	**55,099**	**(4,728)**	**(12)**

		Accumulated depreciation and amortization								
Currency translation adjustment 2010 EUR '000	as at 31/12/2010 EUR '000	as at 01/01/2010 EUR '000	Depre-ciation 2010 EUR '000	Write-ups 2010 EUR '000	Disposals 2010 EUR '000	Reclassi-fications 2010 EUR '000	Currency transla-tion adjust-ment 2010 EUR '000	as at 31/12/2010 EUR '000	Carrying amount as at 31/12/2010 EUR '000	Carrying amount as at 31/12/2009 EUR '000
77	40,747	22,166	14,127	0	(1,619)	(733)	38	33,979	6,768	19,578
0	24,180	9,570	12,820	0	0	0	0	22,390	1,790	13,195
5,360	80,949	5,219	0	0	0	(5,219)	36	36	80,913	68,439
5,437	**121,696**	**27,385**	**14,127**	**0**	**(1,619)**	**(5,952)**	**74**	**34,015**	**87,681**	**88,017**
4,291	339,687	147,997	9,448	0	(96)	(811)	981	157,519	182,168	130,994
16,850	1,710,898	902,597	78,846	0	(11,247)	(3,765)	8,378	974,809	736,089	570,539
9,667	84,587	0	102	0	(103)	0	47	46	84,541	140,165
30,808	**2,135,172**	**1,050,594**	**88,396**	**0**	**(11,446)**	**(4,576)**	**9,406**	**1,132,374**	**1,002,798**	**841,698**
0	8,440	(14,805)	2,581	(3,857)	0	0	(217)	(16,298)	24,738	23,226
0	3,995	210	2,016	0	0	0	(185)	2,041	1,954	4,519
0	94,654	29,101	335	(144)	0	0	0	29,292	65,362	14,495
0	**107,089**	**14,506**	**4,932**	**(4,001)**	**0**	**0**	**(402)**	**15,035**	**92,054**	**42,240**

Consolidated Financial Statements 2010

Development of fixed assets 2009

Costs*

	as at 01/01/2009 EUR '000	Acquisi-tions of subsid-iaries 2009 EUR '000	Reclassifi-cation to discon-tinued operations 2009 EUR '000	Additions 2009 EUR '000	Disposals 2009 EUR '000	Reclassifi-cations 2009 EUR '000
Development of intangible assets						
1. Concessions, industrial property rights and similar rights	37,951	0	0	5,787	(1,964)	0
thereof: internally generated	19,374	0	0	5,289	(1,898)	0
2. Goodwill	75,575	0	0	0	0	0
Total for intangible assets	**113,526**	**0**	**0**	**5,787**	**(1,964)**	**0**
Development of property, plant and equipment						
1. Land and buildings	268,358	0	0	4,066	(854)	8,309
2. Plant and machinery, fixtures, fittings and other assets	1,420,507	0	0	51,763	(12,827)	17,469
3. Prepayments and work under construction	78,533	0	0	90,115	(69)	(25,778)
Total for property, plant and equipment	**1,767,398**	**0**	**0**	**145,944**	**(13,750)**	**0**
Development of financial assets						
1. Investments in associates	4,941	0	0	3,480	0	0
2. Loans	3,036	0	0	2,524	(344)	(487)
3. Securities	39,813	0	0	9,703	(5,920)	0
Total for financial assets	**47,790**	**0**	**0**	**15,707**	**(6,264)**	**(487)**

*) Including discontinued operations

		Accumulated depreciation and amortization*								
Currency translation adjustment 2009 EUR '000	as at 31/12/2009 EUR '000	as at 01/01/2009 EUR '000	Depre-ciation 2009 EUR '000	Write-ups 2009 EUR '000	Disposals 2009 EUR '000	Reclassi-fications 2009 EUR '000	Currency transla-tion adjust-ment 2009 EUR '000	as at 31/12/2009 EUR '000	Carrying amount as at 31/12/2009 EUR '000	Carrying amount as at 31/12/2008 EUR '000
(30)	41,744	20,419	2,179	0	(417)	0	(15)	22,166	19,578	17,532
0	22,765	9,264	670	0	(364)	0	0	9,570	13,195	10,110
(1,917)	73,658	0	5,219	0	0	0	0	5,219	68,439	75,575
(1,947)	**115,402**	**20,419**	**7,398**	**0**	**(417)**	**0**	**(15)**	**27,385**	**88,017**	**93,107**
(888)	278,991	140,199	8,208	0	(327)	0	(83)	147,997	130,994	128,159
(3,776)	1,473,136	846,387	69,755	0	(11,410)	0	(2,135)	902,597	570,539	574,120
(2,636)	140,165	0	0	0	0	0	0	0	140,165	78,533
(7,300)	**1,892,292**	**986,586**	**77,963**	**0**	**(11,737)**	**0**	**(2,218)**	**1,050,594**	**841,698**	**780,812**
0	8,421	(12,153)	74	(2,670)	0	0	(56)	(14,805)	23,226	17,094
0	4,729	234	12	(36)	0	0	0	210	4,519	2,802
0	43,596	29,543	1	(408)	(35)	0	0	29,101	14,495	10,270
0	**56,746**	**17,624**	**87**	**(3,114)**	**(35)**	**0**	**(56)**	**14,506**	**42,240**	**30,166**

Auditor's Report

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Lenzing Aktiengesellschaft, Lenzing, for the fiscal year from January 1, 2010 to December 31, 2010. These consolidated financial statements comprise the consolidated balance sheet as of December 31, 2010, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ended December 31, 2010, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

The Company's management is responsible for the group accounting system 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 consolidated 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 and Description of Type and Scope of the Statutory Audit

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 Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated 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 consolidated financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Group'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 Group'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. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of December 31, 2010 and of its financial performance and its cash flows for the fiscal year from January 1, 2010 to December 31, 2010 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU

Comments on the Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report for the Group is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, 28 February 2011

Deloitte Audit Wirtschaftsprüfungs GmbH

Harald Breit
Chartered Accountant

ppa. Christoph Hofer
Chartered Accountant

Declaration of the Management Board

Declaration of the Management Board pursuant to Section 82 para 4 subpara 3 of the Stock Exchange Act

We declare to the best of our knowledge that the consolidated financial statements of Lenzing Group relating to the fiscal year 2010 give a true and fair view of the assets, liabilities, financial position and profit or loss of Lenzing Group as required by the applicable accounting standards (IFRSs). In addition, we declare to the best of our knowledge that the management report gives a true and fair view of the development and performance of the business and the position of Lenzing Group, together with a description of the principal risks and uncertainties Lenzing Group faces.

Lenzing, 28 February 2011

The Management Board:

Peter Untersperger
Chairman of the Board responsible for:

Business Unit Engineering
Corporate Communications
Global Human Resources
Internal Audit
Mergers & Acquisitions
Wood Purchasing

Friedrich Weninger
Member of the Board responsible for:

Business Unit Textile Fibers
Business Unit Nonwoven Fibers
Business Unit Pulp
Business Unit Energy
Business Unit Plastics
Business Unit Filaments
Safety, Health & Environment
Environment Lenzing
Infrastructure Lenzing
Business Planning

Thomas G. Winkler
Member of the Board responsible for:

Global Finance
Global Information Technology
Global Purchasing
Legal Management
Risk Management

Report of the Supervisory Board of Lenzing AG

To the 67th Annual General Meeting:

Dear shareholders!

At six meetings held during the 2010 business year, the Supervisory Board of Lenzing AG was informed by the Management Board about the company's performance. The further strategic development of the company as well as important business transactions and measures were discussed with the Management Board and the required resolutions were passed. The Management Board submitted a detailed written report to the Supervisory Board at each meeting about all relevant issues relating to the business development, financial position and profit and loss of Lenzing AG and the Lenzing Group. In addition, the Chairman and Deputy Chairman of the Supervisory Board were provided with information on a regular basis.

The Audit Committee of the Supervisory Board convened three times, and in addition to examining the annual and consolidated financial statements, also fulfilled its duties and responsibilities as stipulated in Section 92 Para. 4 Austrian Stock Corporation Act, in particular the monitoring of financial reporting processes as well as the internal control, audit and risk management systems.

Further information pertaining to the composition and mode of operation of the Supervisory Board and its remuneration are available in the Corporate Governance Report.

On 25 March, 2010, the Supervisory Board resolved to appoint Thomas G. Winkler as the new Chief Financial Officer for a period of three years starting on 1 April 2010 i.e. 31 March 2013.

The annual financial statements including the Management Report and Corporate Governance Report of Lenzing AG as well as the consolidated financial statements and the Group Management Report of the Lenzing Group as at 31 December 2010 were audited by Deloitte Audit Wirtschaftsprüfungsgesellschaft mbH, Vienna and granted an unqualified auditor's opinion.

The Audit Committee of the Supervisory Board reviewed the annual and consolidated financial statements, the Management Report and Group Management Report, the proposal of the Management Board for the appropriation of the total accumulated profit, as well as the Corporate Governance Report. The Audit Committee also intensively focused on the auditor's reports and exhaustively discussed the results of the audit in detail with the auditor. On the basis of its own review, the Audit Committee concurred with the results of the auditor's report. The Audit Committee dutifully reported to the Supervisory Board on this matter and recommended that the Supervisory Board propose the appointment of Deloitte Audit Wirtschaftsprüfungsgesellschaft mbH, Vienna again by the Annual General Meeting to serve as the auditors for the 2011 business year.

Following its own detailed review, the Supervisory Board declared its formal approval of the Management Report and Corporate Governance Report, and thus hereby adopted the annual financial statements for 2010 pursuant to Section 96 Para. 4 Austrian Stock Corporation Act. Furthermore, it declared its acceptance of the consolidated financial statements and Group Management Report in accordance with Section 244 and Section 245 Austrian Enterprise Code. The Supervisory Board concurred with the Management Board's proposal on the distribution of the total accumulated profit, according to which a dividend of EUR 39,873,750.00 or EUR 1.55 per no par value share is to be paid from the reported accumulated profit of EUR 79,879,743.25, and to carry forward the balance of EUR 40,005,993.25 to the new account.

The Supervisory Board agreed with the recommendation of the Audit Committee and will thus propose to the 67th Annual General Meeting to appoint Deloitte Audit Wirtschaftsprüfungsgesellschaft mbH, Vienna, as the auditors for the annual financial statements of the 2011 business year.

The Supervisory Board would like to thank the Management Board and all employees of the company for their commitment and hard work along with the very good results achieved during the past business year.

Vienna, 28 February 2011

Hermann Bell
Chairman of the Supervisory Board

Long-term comparison

under IFRS

Sales and result		2010	2009*	2009	2008	2007	2006	2005	2004	2003
Sales	EUR mill.	1,766.3	1,218.0	1,254.7	1,329.1	1,260.5	1,042.6	942.6	871.1	747.2
Sales outside of Austria	%	91.3	88.1	88.4	87.8	85.9	85.6	85.0	83.7	83.6
Income from operations (EBIT)/ Operating result	EUR mill.	231.9	114.2	100.7	130.3	162.3	107.8	81.8	104.3	89.7
Financial result	EUR mill.	(15.1)	(11.3)	(12.2)	(15.6)	(11.3)	(8.5)	(2.5)	(0.8)	(5.1)
Income before taxes (EBT)	EUR mill.	216.9	102.9	88.5	114.7	151.0	99.2	79.3	103.5	84.6
Income taxes	EUR mill.	(40.2)	(23.0)	(21.6)	(36.6)	(32.8)	(10.4)	(18.6)	(26.0)	(20.8)
Profit for the year	EUR mill.	169.9	66.8	66.8	78.7	117.6	88.4	60.7	77.5	63.7
Profit for the year attributable to shareholders of Lenzing AG	EUR mill.	159.1	64.4	64.4	77.7	109.6	83.9	56.9	67.7	58.8
Cash flow										
Gross cash flow	EUR mill.	282.3	147.4	140.9	157.8	203.6	146.9	120.4	128.5	115.9
Gross cash flow as percentage of sales	%	16.0	12.1	11.2	11.9	16.2	14.1	12.8	14.7	15.5
Net cash from operating activities	EUR mill.	294.0	250.9	250.9	50.4	223.8	146.1	124.3	95.3	127.1
Free cash flow	EUR mill.	13.3	92.9	92.9	(96.3)	(36.4)	43.7	35.1	(36.2)	(11.3)
Capital expenditure (Intangible assets, property, plant and equipment)	EUR mill.	230.0	150.4	151.7	158.6	136.7	104.1	82.4	60.9	139.2
Assets structure										
Non-current assets	%	60.9	67.5	67.5	64.2	62.1	63.0	63.5	64.9	60.8
Current assets	%	39.1	32.5	32.5	35.8	37.9	37.0	36.5	35.1	39.2
Total assets	EUR mill.	1,963.4	1,447.2	1,447.2	1,415.8	1,308.6	1,061.7	1,010.1	946.1	897.1
Capital structure										
Adjusted Equity[1]	%	38.6	42.0	42.0	42.7	44.8	51.1	48.0	48.7	45.1
Post employment benefits	%	4.2	5.7	5.7	6.2	6.3	7.0	7.2	6.3	7.4
Liabilities (excl. post employment benefits)	%	57.2	52.3	52.3	51.1	48.9	41.9	44.8	45.0	47.5
Key data										
Return on sales (ROS)[2]	%	10.8	7.0	5.7	7.1	10.6	7.8	6.5	8.8	10.3
Return on capital employed (ROCE)[3]	%	18.4	8.6	7.2	10.0	17.5	11.9	9.0	12.2	14.3
Return on equity (ROE)	%	24.9	11.0	11.0	13.2	20.8	17.2	12.8	17.9	17.0
EBIT[4]	EUR mill.	231.9	114.2	100.7	130.3	162.3	107.8	81.8	104.3	89.7
EBIT margin	%	13.1	9.4	8.0	9.8	12.9	10.3	8.7	12.0	12.0
EBITDA[5]	EUR mill.	330.6	187.9	182.0	200.8	229.3	169.3	141.6	160.4	134.8
EBITDA margin	%	18.7	15.4	14.5	15.1	18.2	16.2	15.0	18.4	18.0
Earnings per share[6]	EUR	6.2	2.5	2.5	3.0	4.3	3.3	2.2	2.6	2.3
Number of employees at year-end		6,530	6,021	6,021	5,945	6,043	5,044	4,860	4,845	4,523

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

1) = Equity incl. grants less prop. deferred taxes

2) = $\frac{\text{NOPAT (= Income from operations (EBIT) less proportional income taxes)}}{\text{sales}}$

3) = NOPAT
((The average of stockholders' equity and non-controlling interests
+ Interest bearing debt
- Cash
- Investments
- Current and non-current securities and loans
- Investments in associates and other financial assets) 01/01+31/12)/2

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

6) In December 2010 the number of shares in circulation was increased to 25,725,000 by a stock split with a proportion of 1:7. The comparative figures were adjusted.

*) Values adjusted according to IFRS 5

Financial Calendar 2011

	201/
Preliminary results	Monday, 21 February
Final results	Tuesday, 8 March
67th Shareholders' Meeting, "Reitersaal" hall of OeKB, Strauchgasse 3, A-1010 Vienna	Tuesday, 29 March
Quotation ex dividend	Thursday, 31 March
Dividend distribution	Friday, 1 April
Results 1st quarter	Wednesday, 11 May
Half year results	Thursday, 25 August
Results 3rd quarter	Wednesday, 16 November

Notes

This English translation of the financial statements for the financial year ending 31 December 2010 was prepared for the company's convenience only. It is not a non-binding translation of the German financial statements for the financial year ending 31 December 2010. In the event of discrepancies between this English translation and the German original the latter shall prevail.

This annual report also includes forward-looking statements based on current assumptions and estimates that are made to the best of its knowledge by Lenzing AG. Such forward-looking statements can be identified by the use of terms such as "should" "could", "will", "estimate", "expect", "assume", "predict", "intend", "believe" or similar terms. The projections that are related to the future development of the Lenzing AG represent estimates that were made on the basis of the information available as of the date on which this annual report went to press. Actual results may differ from the forecast if the assumptions underlying the forecast fail to materialize or if risks arise at a level that was not anticipated.

Calculation differences may arise when rounded amounts and percentages are summed. The annual report was prepared with great accuracy in order to ensure that the information provided herein is correct and complete. Rounding, type-setting and printing errors can nevertheless not be completely ruled out.

Editorial deadline: 7 March 2011

LENZING
LEADING FIBER INNOVATION

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