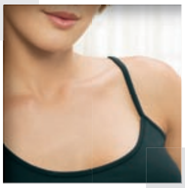

Letter to Shareholders

FIRST HALF YEAR 2008 Lenzing Group

LENZING

LEADING FIBER INNOVATION

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Management Report

The Lenzing Group was able to carry the good market situation of business year 2007 and the first quarter of 2008 over into the second quarter. The essential business key data were improved. However, weakening demand in line with the global trend affected core segment Fibers from the second quarter on.

The Lenzing Group in the first half year 2008

Sales: EUR 689.5 mill. (up 17.4%)

EBIT: EUR 72.1 mill. (up 8.1%)

EBT: EUR 64.8 mill. (up 4.3%)

Net income: EUR 46.8 mill. (up 1.5%)

Management Report

General Market Environment

The global economy started to weaken as a consequence of the developments in the USA, as was to be expected. For the time being, a slowdown of the economy but not a recession is predicted for Europe and Asia. Negative psychological impact, however, clearly affected the markets from the second quarter on. The further rise of raw material and energy prices, which in part was dramatic, caused additional concern as to the future development of the global economy.

In line with these expected global economic developments, the global fiber market has cooled off markedly after two boom years. Particularly in Asia, fiber demand began to decline with the beginning of the second quarter.

Development of the Lenzing Group

The Lenzing Group was able to carry the good market situation of business year 2007 and the first quarter of 2008 over into the second quarter. The essential business key data were improved. However, and as announced, weakening demand affected Lenzing's core segment Fibers from the second quarter on in line with the global trend. Moreover, the rise in cost of material and purchased services was disproportional and burdened the second quarter sales figures of segment Fibers.

Consolidated sales of the first half-year rose by 17.4% from EUR 587.5 mill. * to EUR 689.5 mill. The increase was based on improved prices over previous year's, higher sales volumes in fibers and the first-time full consolidation of the new acquisitions in segment Plastics. The above-average rise of cost of material and purchased services by 23.8% from EUR 333.6 mill. to EUR 412.9 mill. was largely the consequence of rapidly rising prices for energy, chemicals and other raw materials. These costs could not be passed on the customers to the same extent as in the previous quarters.

EBIT improved by 8.1% from EUR 66.7 mill. to EUR 72.1 mill. The financial result changed from minus EUR 4.6 mill. to minus EUR 7.3 mill. because of increased net debt due to investments made and rising interest rates.

EBT rose from EUR 62.1 mill. to EUR 64.8 mill. and period net income from EUR 46.1 mill. to EUR 46.8 mill. Earnings per share improved from EUR 11.53 to EUR 12.02.

The EBIT margin declined from 11.4% to 10.5% and the EBITDA margin from 16.8% to 15.6%, still very good figures, considering the weakening market situation.

*) Due to the sale of segment Paper, comparative figures were adjusted

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The decline of operating cash flow from EUR 103.0 mill. to EUR 30.9 mill. reflects the increased demand for financing working capital due to higher stock levels and cost of material for production.

The interim balance sheet of the Lenzing Group as at 30 June 2008 shows equity at EUR 543.3 mill. (31 December 2007: EUR 562.2 mill.). With a balance sheet total of EUR 1.31 bill. this corresponds to an adjusted equity ratio* of 43.4% (year-end 2007: 44.8%).

Investment for property, plant and equipment and intangible assets came to EUR 66.3 mill., essentially for the further expansion of the SPV fiber production site in Indonesia. Other projects were a precursor pilot plant for carbon fibers, the first part of the renovation of a fiber production line at the Lenzing site and the expansion of the fiber production lines at the Heiligenkreuz site.

As at 30 June 2008, the Lenzing Group employed a staff of 5,952 (31 December 2007: 5.918) in its continuing business operations.

Segment Reporting

Segment Fibers

The weakening of the economy led to significant price pressure from the second quarter on as opposed to implemented price increases in the first quarter. Textile fibers were particularly affected by this development.

Cotton prices moved up during the first quarter, declined during the second and recovered to reach 81.5 cents per pound in June, slightly above the price at the beginning of the second quarter. Polyester fiber prices remained more or less stable due to excess capacity, although the rising crude oil price increased raw material cost for the polyester fiber industry and put considerable pressure on margins.

Lenzing consistently continued to implement its corporate strategy. Intensive marketing activity in the top segment secured its global position, despite the difficult general conditions. The expansion of the product portfolio favoring specialty products with good margins markedly contributed to the good business development of the first six months. The general weakness of the market, however, made price concessions necessary, in particular for standard fibers in Asia towards the end of the second quarter 2008.

Segment sales grew by 13.7% from EUR 502.1 mill. to EUR 571.0 mill. The increase is reflected in the rise of the segment's EBIT from EUR 56.9 mill. to EUR 65.0 mill.

All fiber production plants of the Lenzing Group operated at full capacity. The viscose fiber plant in Nanjing (China), which had started production in 2007, reached its nominal capacity at high and stable product quality.

*) Equity including government grants less proportionate deferred taxes

Management Report

Business Unit Textile Fibers

Textile Fibers developed new customer groups and market segments in the targeted product groups high-quality sportswear, lingerie and home textiles.

The development of specialty product flame retardant fibers (Lenzing FR®) was excellent. Lenzing and its partner TenCate Protective Fabric (TenCate) reached an agreement giving direction for the coming years on the supply of fibers for a new generation of uniforms for the US armed forces: Lenzing will supply fibers from Austria to US partner TenCate, a leading US producer of flame retardant fabrics in the USA, which is a supplier to the US armed forces. The new uniform fabric Defender™M addresses the need of members of the US armed forces for enhanced flame protection. As opposed to other fibers, Lenzing FR® not only protects from flames and heat, but offers optimum moisture management as well. Lenzing fibers therefore provide a significant contribution to the ease-of-wear of these items. Lenzing expects orders for flame retardant uniforms from other countries, due to the pull effect of the order by the US armed forces.

Technical fibers as well met with very good success.

Business Unit Nonwoven Fibers

The good demand for nonwoven fibers of 2007 continued into the first six months of 2008 and previous year's price levels were held. The first impact of the slowing global economy led to a weaker situation in Asia and Europe which might require future price adaptations, although volume demand is growing steadily. The unfavorable demand situation for textile fibers, however, has significant impact on the development of prices.

Lenzing fibers are a key product in a continuously growing market of consumer goods, such as disposable wipes and cosmetics products. The mega trend to environmentally compatible products improves the position of sustainably produced cellulose nonwoven fibers Lenzing Viscose® and TENCEL®. Customers favored these fibers because of these advantages.

Lenzing and the US pulp, paper and timber group Weyerhaeuser will start a collaboration project for the development of novel lyocell-based nonwovens products. The objective of the collaboration is to jointly develop a technology for the large-scale industrial production of a novel cellulose-based material for industrial and personal care applications. The technology is to provide an alternative to petroleum-based materials in nonwoven products by using the renewable raw material wood. A cellulose solution is processed directly and without intermediate process steps into a nonwoven fabric.

Promising innovations in technical fibers are expected to further increase the independence from textile markets.

Business Unit Pulp

The supply situation for dissolving pulp eased up considerably in the first six months of 2008. This was due to weaker demand for viscose fibers and the imminent start-up of new production capacity, which led to in part drastic price decline in the spot market.

The supply for Lenzing production sites was secured by a high level of integrated production and long-term delivery contracts. Lenzing is not affected by spot market price volatility. Long-term contracts, as well as the good wood supply situation at the Lenzing site will secure pulp supply for the Lenzing Group for the remainder of the business year.

Business Unit Energy

Business activity was characterized by the further rise in energy prices. The use of alternative fuels buffered the development at the Lenzing site. The other sites, however, were under strong pressure especially from the high price of natural gas. Current and new projects for saving energy brought only slight relief from this joyless trend.

Outlook segment Fibers

At the beginning of the second half of business year 2008 markets continue to weaken. The textile pipeline is filling up. No relief is therefore to be expected in the coming months. New production capacity in China and India will lead to oversupply. Some Asian producers are already cutting back production to adapt to the new situation.

Lenzing's strategy of close cooperation with the textile chain to arrive at innovative solutions proves to be successful, especially in the current difficult situation. Lenzing successfully sets itself apart from its competitors and will buffer the market's downturn in the best way possible.

Volume demand for nonwovens continues to be strong, especially in Europe and North America. The development of prices, however, is joyless. Lenzing will have to follow the market development for nonwoven fibers in the coming months. The use of renewable resources will bring opportunities for Lenzing nonwoven products in the medium and long term.

Rising energy and raw material prices will lead to considerable additional cost pressure in the second half of 2008. Some prices for chemicals grew by triple-digit percent leaps and natural gas prices will follow oil prices putting considerable cost pressure on the non-integrated production sites.

Segment Plastics

The focus was put on the integration of the new companies acquired in 2007. Moreover, site optimization and structural improvements were consistently implemented. The segment was reorganized into two new business units (Business Unit Filaments and Fibers, Business Unit Performance Polymers) adapting the segment's structure to market realities.

Business development was positive and according to expectations, even if there were first signs of impact from the weakening European economy. The development of demand has been strained since the first quarter, largely reflecting the poorer business confidence of the industry.

Product groups dental care, bristles, MOPP* films and textile architecture continued to develop well. Supply to the European construction and insulation material industry declined due to seasonal and cyclical reasons. The strong rise in raw material and energy prices burdens the business, making further price adaptations for individual product groups inevitable.

The new acquisition Dolan (acrylic fibers for outdoor and filtration applications) showed good development of volume demand.

The construction of a production plant for precursor at the European Precursor GmbH (EPG) proceeded as scheduled. Production will start up in the third quarter and ensure the basic supply of the European carbon fiber industry. The Lenzing Group expects follow-up orders from its joint venture partner SGL in the next years.

Segment sales grew to EUR 98.3 mill. from EUR 61.6 mill. in the first six months of 2007. This increase was mainly due to the first-time full consolidation of the newly acquired companies.

Segment EBIT improved from von EUR 5.7 mill. to EUR 6.1 mill.

*) Monoaxially Oriented Polypropylene

Management Report

Outlook segment Plastics

The difficult general situation in energy and raw material prices is expected to remain unchanged throughout the second half of the year. It will be difficult to fully pass increased cost on to the market. It is expected that the segment's business development will have to face challenges throughout the remainder of the business year.

Segment Engineering

The first half of the segment's business year was characterized by strong order bookings from the fiber industry due to continued investment activity. The development of business fields engineering and contracting, as well as mechanical construction and industrial services was particularly gratifying. Automation showed lower margins.

Capacities for product group mechanical construction and industrial services were enlarged in April by new production areas at the Lenzing site, intended for the medium term expansion of systems and container construction.

Segment sales slightly increased to EUR 53.4 mill. from EUR 52.0 mill. EBIT declined from EUR 4.5 mill. to EUR 3.9 mill.

Outlook segment Engineering

For the coming months, business is expected to continue as before due to the high level of order bookings.

Investor Relations

This year's general shareholders' meeting on 12 June decided on the payment of a dividend of EUR 14.00 per share for 2007 (2006: EUR 10.00). Winfried Braumann, managing director of B & C Holding GmbH, and Andreas Schmidradner, also of B & C Holding GmbH, were newly elected to the supervisory board.

Hermann Bell was elected chairman of the supervisory board and Walter Lederer was re-elected deputy chairman at the constituent meeting of the new supervisory board held after the general shareholders' meeting.

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Risk report

There were no essential changes in the risk categories detailed in the 2007 management report. Risk management now follows the COSO[1] ERM[2] framework with the goal of standardized identification, evaluation and management of risks.

Outlook Lenzing Group

The unfavorable economic development that started in the USA clouds expectations for the global economy. As a result, the European economy and the export business of the emerging markets with industrialized nations will weaken. The restrictive credit policy of banks and general fear of inflation further add to great caution, especially in industries with exposure to cyclical developments.

The current business year will see the start-up of more production capacity for cellulose fibers in Asia. The global undersupply of the past two years will therefore give way to a phase of overcapacity. The weak dollar and turbulent raw material and energy markets will add further pressure. The fiber boom of the past years has come to an end.

The Lenzing Group will counter the increasingly difficult market situation in its core business fibers with a high-quality product portfolio with less susceptibility to cyclical volatility and further orientation towards specialty products. The company will thereby maintain its global market leadership. However, margins in the fiber business will inevitably decline in the further course of business year. Segment Plastics will have to face challenges in the second half of the business year. Segment Engineering is expected to have a good and stable business development.

Results for business year 2008 will be on par with the excellent results of the past years. It is, however, unlikely that the result level of record year 2007 will be reached.

Lenzing, 13 August 2008

The Management Board

[1] COSO: Committee of Sponsoring Organizations of the Treadway Commission [2] ERM: Enterprise Risk Management

Interim Consolidated Financial Statements


HYBRID

Interim Consolidated Financial Statements

Balance Sheet

Assets	Note	30/06/2008 EUR mill.	31/12/2007 EUR mill.
Goodwill	(12)	68.3	72.7
Other intangible assets	(12)	13.0	13.1
Property, plant and equipment	(12)	719.6	698.8
Investments in associates		15.6	12.6
Other financial assets		12.4	12.4
Deferred taxes		1.4	0.9
Other non-current assets		4.6	2.7
Non-current assets		**834.9**	**813.2**
Inventories	(13)	205.8	164.0
Trade receivables		148.2	135.8
Current taxes		3.0	3.0
Other receivables and assets	(14)	52.1	46.6
Investments		0.0	8.1
Cash and cash equivalents		68.7	110.9
		477.8	**468.4**
Assets classified as held for sale		0.0	27.0
Current assets		**477.8**	**495.4**
		1,312.7	**1,308.6**

Equity and Liabilities	Note	30/06/2008	31/12/2007
		EUR mill.	EUR mill.
Equity attributable to shareholders of Lenzing AG		522.6	544.3
Minority interests		20.7	17.9
Equity		**543.3**	**562.2**
Government grants		**31.7**	**30.5**
Financial liabilities	(15)	289.9	297.5
Trade payables		0.6	0.6
Deferred taxes		22.8	25.9
Provisions		91.2	90.2
Other liabilities		2.4	2.4
Non-current liabilities		**406.9**	**416.6**
Financial liabilities	(15)	70.8	30.0
Trade payables	(16)	81.5	100.4
Provisions for current income tax		13.6	17.3
Other provisions	(17)	120.1	83.4
Other liabilities		44.8	47.9
		330.8	**279.0**
Liabilities directly associated with the assets classified as held for sale		0.0	20.3
Current liabilities		**330.8**	**299.3**
		1,312.7	**1,308.6**

Interim Consolidated Financial Statements

Income Statement

	Note	4-6/2008	4-6/2007	1-6/2008	1-6/2007
		EUR mill.	EUR mill.	EUR mill.	EUR mill.
Sales	(6)	342.7	306.2	689.5	587.5
Change in inventories of finished goods and work in progress		6.6	(0.5)	13.0	(5,3)
Work performed by the Group and capitalized	(7)	8.5	8.6	18.3	15.0
Other operating income	(8)	4.2	2.9	12.0	5.4
Cost of material and purchased services		(215.6)	(177.2)	(412.9)	(333.6)
Personnel expenses	(9)	(62.4)	(58.0)	(123.8)	(110.8)
Amortization of intangible assets and depreciation of property, plant and equipment	(10)	(18.4)	(16.8)	(36.7)	(33.8)
Other operating expenses	(11)	(35.6)	(31.5)	(87.3)	(57.7)
Income from operations (EBIT)	**(6)**	**30.0**	**33.7**	**72.1**	**66.7**
Income from investments in associates		(0.2)	0.1	0.4	(0.1)
Other investment income		0.7	0.3	1.1	1.1
Finance costs		(4.2)	(2.8)	(8.8)	(5.6)
Income before tax (EBT)		**26.3**	**31.3**	**64.8**	**62.1**
Income tax		(8.1)	(8.2)	(18.3)	(15.7)
Profit after taxes from continuing operations		**18.2**	**23.1**	**46.5**	**46.4**
Result from discontinued operations		0.0	0.0	0.3	(0.3)
Net income		**18.2**	**23.1**	**46.8**	**46.1**
Attributable to shareholders of Lenzing AG		17.7	21.0	44.2	42.3
Attributable to minority shareholders		0.5	2.1	2.6	3.8
		EUR	EUR	EUR	EUR
Earnings per share		**4.80**	**5.75**	**12.02**	**11.53**

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Cash Flow Statement

	Note	1-6/2008 EUR mill.	1-6/2007 EUR mill.
Gross cash flow		82.3	81.9
Change in working capital		(50.9)	21.1
Net cash used in discontinued operations		(0.5)	0.0
Operating cash flow	**(19)**	**30.9**	**103.0**
- Acquisition of non-current assets	(19)	(66.6)	(195.0)
+ Proceeds from the disposal / repayment of non-current assets		0. 9	1.0
+ Proceeds from the sale of securities held for sale		8.0	0.0
Proceeds from the disposal of / Net cash used in discontinued operations		2.3	(0.2)
Net cash used in investing activities		**(55.4)**	**(194.2)**
+ Payments of other shareholders		2.7	0.0
- Dividends paid to shareholders	(20)	(53.0)	(38.1)
+ Receipts from financing activities		40.7	149.0
- Repayment of loans		(6.1)	(39.1)
Net cash from discontinued operations		0.0	0.2
Net cash used in (-) / provided by (+) financing activities		**(15.7)**	**72.0**
Change in cash and cash equivalents		**(40.2)**	**(19.2)**
Cash and cash equivalents at the beginning of the year		111.4	88.8
Currency translation adjustment relating to cash and cash equivalents		(2.5)	(0.1)
Cash and cash equivalents at the end of the reporting period		**68.7**	**69.5**

Interim Consolidated Financial Statements

Development of Equity

		Share of
	Common stock	Capital reserves
	EUR mill.	EUR mill.
Balance as at 1/1/2007	**26.7**	**63.6**
Exchange differences on translation of financial statements presented in foreign currencies		
Other income and expenses recognized directly in equity		
Net income / (loss) recognized directly in equity	**0.0**	**0.0**
Net income		
Total recognized income and expense for the period	**0.0**	**0.0**
Change of consolidated group		
Dividends		
Balance as at 30/06/2007	**26.7**	**63.6**
Balance as at 1/1/2008	**26.7**	**63.6**
Exchange differences on translation of financial statements presented in foreign currencies		
Other income and expenses recognized directly in equity		
Net income / (loss) recognized directly in equity	**0.0**	**0.0**
Net income		
Total recognized income and expense for the period	**0.0**	**0.0**
Contribution to capital		
Dividends		
Balance as at 30/06/2008	**26.7**	**63.6**

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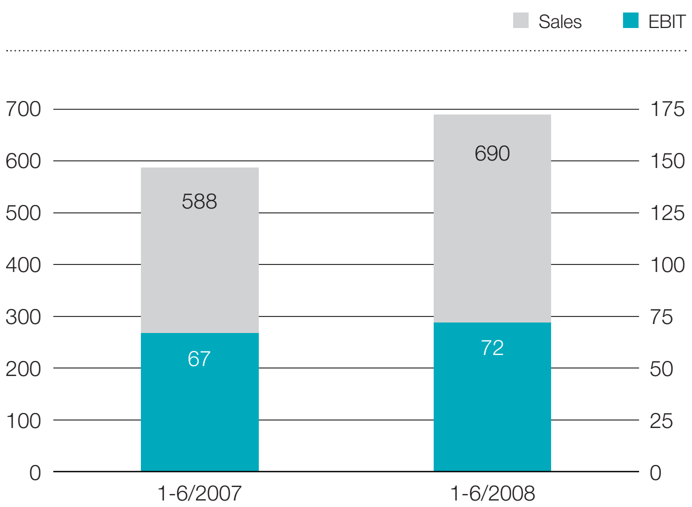
Lenzing AG shareholders			Minority interests	Equity Total
Currency translation reserves	Retained earnings and other reserves	Total		
EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.
(2.7)	**402.7**	**490.3**	**25.7**	**516.0**
(1.9)		(1.9)	0.0	(1.9)
	(0.3)	(0.3)	0.0	(0.3)
(1.9)	**(0.3)**	**(2.2)**	**0.0**	**(2.2)**
	42.3	42.3	3.8	46.1
(1.9)	**42.0**	**40.1**	**3.8**	**43.9**
		0.0	(14.0)	(14.0)
	(36.7)	(36.7)	(1.4)	(38.1)
(4.6)	**408.0**	**493.7**	**14.1**	**507.8**
(20.6)	**474.6**	**544.3**	**17.9**	**562.2**
(13.0)		(13.0)	(0.6)	(13.6)
	(1.5)	(1.5)	0.0	(1.5)
(13.0)	**(1.5)**	**(14.5)**	**(0.6)**	**(15.1)**
	44.2	44.2	2.6	46.8
(13.0)	**42.7**	**29.7**	**2.0**	**31.7**
		0.0	2.7	2.7
	(51.4)	(51.4)	(1.9)	(53.3)
(33.6)	**465.9**	**522.6**	**20.7**	**543.3**

Interim Consolidated Financial Statements

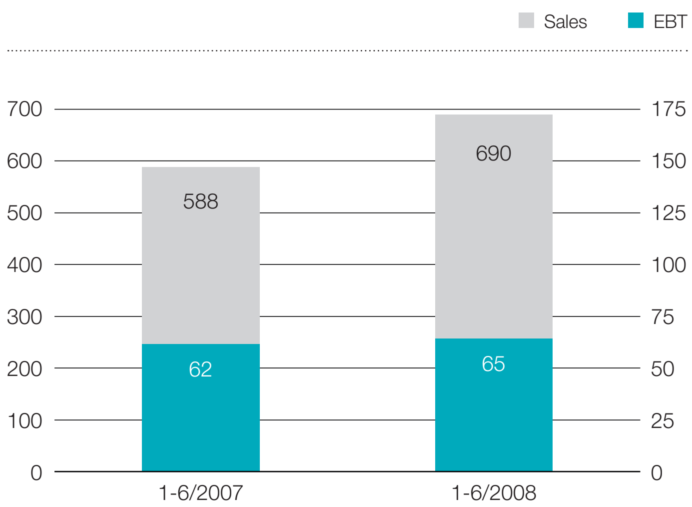
Key Data

	Entity	30/06/2008	31/12/2007
Adjusted equity [1]	EUR mill.	569.3	586.4
Equity	%	43.4	44.8
Net debt	EUR mill.	292.0	219.6
Net Gearing	%	51.3	37.4
Number of employees at period end[2]		5,952	5,918
		1-6/2008	1-6/2007
EBIT margin[2]	%	10.5	11.4
EBITDA margin[2]	%	15.6	16.8
Capital expenditure for intangibles, property, plant and equipment [2]	EUR mill.	66.3	72.4

Sales compared to EBIT
EUR mill.



Sales compared to EBT
EUR mill.



1) Equity including government grants less proportionate deferred taxes 2) Continuing operations

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Selected Explanatory Notes

Note 1. Presentation of the interim financial report

These condensed interim consolidated financial statements of the Lenzing Group for the period from 1 January to 30 June 2008 were prepared in accordance with IAS 34 "Interim financial reporting". The accounting policies and valuation methods employed are in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The figures provided in the interim consolidated financial statements at hand and in these notes are in million Euros (EUR mill.) or thousand Euros (EUR '000), unless specified otherwise.

Note 2. Accounting policies

These interim consolidated financial statements employ the same accounting policies and valuation methods as the latest annual financial statements of the Lenzing Group as of 31 December 2007.

The following exchange rates were used to convert the assets and liabilities of subsidiaries from the functional currency to the reporting currency on the reporting dates indicated:

Unit	Currency	Middle rate	
		30/06/2008	31/12/2007
1	EUR/USD US Dollar	1.5820	1.4720
1	EUR/GBP GB Pound	0.7930	0.7345
1	EUR/CNY Renminbi Yuan	10.8300	10.7460
1	EUR/HKD Hong Kong Dollar	12.3100	11.4720
1	EUR/CZK CZ Crown (Koruna)	23.9200	26.6050

Note 3. Changes in estimates

There were no changes in estimates of amounts presented in earlier interim reporting periods or business years which would have a material effect on the current interim reporting period.

Note 4. Scope of consolidation

The Lenzing Group acquired another 10% of EQUI-Fibres Beteiligungsgesellschaft mbH in April 2008.

Interim Consolidated Financial Statements

Selected Explanatory Notes

Note 5. Sale of companies

Lenzing AG divested segment Paper as an independent company (Lenzing Papier GmbH) and sold 60% of the shares at the beginning of March, thereby giving up management control of the business field.

Analysis of profit for the year from discontinued operations

The result from discontinued operations is:

Income statement	1-2/2008	1-6/2007
	EUR '000	EUR '000
Sales	12,564	30,683
Other operating income	30	0
Changes in inventories of finished goods and work in progress	(1,260)	187
Cash effective expenses	(11,184)	(30,487)
Amortization of intangible assets and depreciation of property, plant and equipment	(195)	(800)
Income from operations (EBIT)	**(45)**	**(417)**
Finance costs	(98)	0
Income before tax (EBT)	**(143)**	**(417)**
Attributable income tax	(19)	104
Loss contributed from discontinued operations	**(162)**	**(313)**

Book value of net assets sold

The major classes of assets and liabilities are:

Book value of net assets sold	29/02/2008	31/12/2007
	EUR '000	EUR '000
Intangible assets	19	21
Property, plant and equipment	9,453	9,645
Other financial assets	22	24
Non-current assets	**9,494**	**9,690**
Inventories	9,915	10,350
Receivables and other assets	9,193	6,434
Cash at banks	500	500
Current assets	**19,608**	**17,284**
Assets of discontinued operations	**29,102**	**26,974**
Government grants	**61**	**61**
Deferred tax	214	225
Long-term provisions	2,279	2,919
Non-current liabilities	**2,493**	**3,144**
Financial liabilities	10,383	11,650
Trade payables	5,312	3,222
Short-term provisions	3,842	1,413
Other short-term liabilities	840	767
Current liabilities	**20,377**	**17,052**
Liabilities of discontinued operations	**22,931**	**20,257**

Interim Consolidated Financial Statements

Selected Explanatory Notes

Note 6. Segment reporting

The sales and results by business segment according to internal reporting for the management are:

1-6/2008	Fibers	Plastics	Engineering
	EUR mill.	EUR mill.	EUR mill.
Sales to external customers	565.7	97.6	25.7
Inter-segment sales	5.3	0.7	27.7
Total sales	**571.0**	**98.3**	**53.4**
Segment result (EBIT)	**65.0**	**6.1**	**3.9**

1-6/2007	Fibers	Plastics	Engineering
	EUR mill.	EUR mill.	EUR mill.
Sales to external customers	495.8	61.0	30.3
Inter-segment sales	6.3	0.6	21.7
Total sales	**502.1**	**61.6**	**52.0**
Segment result (EBIT)	**56.9**	**5.7**	**4.5**

*) 1-2/2008

Other	Consolidation	Subtotal continuing operations	Paper*	Total
EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.
0.5	0.0	689.5	12.6	702.1
0.7	(34.4)	0.0	0.0	0.0
1.2	**(34.4)**	**689.5**	**12.6**	**702.1**
0.0	**(2.9)**	**72.1**	**0.0**	**72.1**

Other	Consolidation	Subtotal continuing operations	Paper	Total
EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.
0.4	0.0	587.5	30.7	618.2
0.6	(29.2)	0.0	0.0	0.0
1.0	**(29.2)**	**587.5**	**30.7**	**618.2**
0.1	**(0.5)**	**66.7**	**(0.4)**	**66.3**

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Note 7. Work performed by the Group and capitalized

This heading represents expenses of the Group that were capitalized as part of cost of production of fixed assets. The increase from EUR 15.0 mill. to EUR 18.3 mill. is due to the increased volume of intra-group investment projects.

Note 8. Other operating income

Other operating income increased by EUR 6.6 mill. from EUR 5.4 mill. to EUR 12.0 mill. Revenues from government grants for emission rights increased by EUR 2.0 mill. due to the far higher price of certificates. The remainder results from services still rendered to Lenzing Papier GmbH and the first full-time consolidation of the companies acquired by segment Plastics in 2007.

Note 9. Personnel expenses

Personnel expenses came to EUR 123.8 mill. (reference period 2007: EUR 110.8 mill.) of which EUR 5.0 mill. (reference period 2007: EUR 4.5 mill.) were for severance payments and retirement benefits.

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

Amortization of intangible assets and depreciation of property, plant and equipment amounted to EUR 36.7 mill. (reference period 2007: EUR 33.8 mill.), exclusively comprising systematic amortization and depreciation.

Note 11. Other operating expenses

Other operating expenses are comparable only to a limited extent due to fact that the new viscose fiber plant in Nanjing started production in the course of the first half of 2007 thus did not operate throughout all the first six months (increase of EUR 5.2 mill.) and the first-time full consolidation of the companies acquired in 2007 (EUR 5.5 mill.). The increase, moreover, is due to increased business volume, and furthermore caused by the use of emission certificates (EUR 2.0 mill., see note 8) and the increase of foreign currency losses (EUR 2.5 mill.), which were caused by the unfavorable development of the US dollar exchange rate.

Note 12. Intangible assets and property, plant and equipment

The Lenzing Group invested EUR 66.3 mill. (reference period 2007: EUR 72.4 mill.) in intangible assets and property, plant and equipment. The main projects were: the expansion of production capacity at Lenzing, the extension of production lines at the Tencel site Heiligenkreuz and the viscose fiber plant in Purwakarta, Indonesia, and the construction of a precursor plant at European Precursor GmbH in Kelheim, Germany.

Open purchase orders for the delivery of property, plant and equipment as at 30 June 2008 came to EUR 69.2 mill. (31 December 2007: EUR 46.8 mill.).

Note 13. Inventories

Inventories rose by EUR 41.8 mill. to EUR 205.8 mill., the main increase being attributable to increased raw material values due to higher stock levels and as well as higher commodity prices (increase of EUR 28.5 mill.). The increase in work in progress and finished products (EUR 12.1 mill.) mainly affects the inventories of segment Fibers.

Note 14. Other receivables and assets

The increase in other receivables and assets by EUR 5.5 mill. was above all the result of the valuation of emission certificates issued for 2008 (EUR 4.6 mill.).

Note 15. Financial liabilities

Short-term and long-term financial liabilities increased by EUR 33.2 mill. to EUR 360.7 mill., essentially due to investment in the construction of the precursor plant at Kelheim, the extension work at Heiligenkreuz and increased raw material values at the fiber production sites which are a result of higher stock levels as well as increased commodity prices.

Note 16. Short-term trade payables

The balance of trade payables, being a freeze frame as at June 30, decreased in comparison to December 31 due to the scheduling of weekly payment runs.

Note 17. Other short-term provisions

The increase in other short-term provisions is essentially due to services not yet invoiced and accruals in segments Fiber, Engineering and Plastics.

Note 18. Contingent liabilities and commitments

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

	30/06/2008	31/12/2007
	EUR mill.	EUR mill.
Assumption of liability for associated companies	9.7	10.1
Bank guarantees in favor of third parties	0.5	0.5

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 19. Cash flow statement

Gross cash flow remained constant but cash flow from operations declined from EUR 103.9 mill. to EUR 30.9 mill. mainly due to increased inventories.

Net cash used in investment activities shows lower investment in long-term assets. Investment in property, plant and equipment remained constant (see note 12), but considerable acquisitions of subsidiaries were made in the first half of 2007.

Cash and cash equivalents comprise cash in hand and cash at banks, sight deposits and short-term time deposits at banks and securities with a maturity of less than three months at the time of purchase.

Note 20. Dividends paid

The shareholders of Lenzing AG were paid the following dividends in the reporting period:

	Total (EUR mill.)	Number of shares	Dividend per share (EUR)
Dividend paid in 2008 for business year 2007	51.4	3,675,000	14
Dividend paid in 2007 for business year 2006	36.7	3,675,000	10

In the reporting period subsidiaries distributed EUR 1.6 mill. (reference period 2007: EUR 1.4 mill.) to minority shareholders.

Note 21. Related party transactions

The group of related parties (companies and persons) has remained unchanged since the publication of the latest annual financial statements. The scope of essential business transactions and outstanding balances with associated companies are as follows:

	1-6/2008	1-6/2007
	EUR mill.	EUR mill.
Sales	27.9	23.2
Other operating income	1.5	0.3
Cost of material and purchased services	7.8	2.9

	30/06/2008	31/12/2007
Receivables (incl. amounts due under construction contracts)	13.4	11.4
Liabilities	13.0	20.0

Note 22. Derivative financial instruments

The Lenzing Group employs foreign currency forward contracts and options which are measured at their market value to hedge currency risks.

The market values of these hedging instruments at the reporting dates were as follows:

Fair Value Hedges

Type of derivative financial instrument	Gain (+)/Loss (-)	
	30/06/2008	31/12/2007
	EUR mill.	EUR mill.
Foreign currency forward contracts	3.4	1.6
Foreign currency options	0.0	0.0

Cash flow Hedges

Type of derivative financial instrument	Gain (+)/Loss (-)	
	30/06/2008	31/12/2007
	EUR mill.	EUR mill.
Foreign currency forward contracts	0.4	4.0
Foreign currency options	0.0	0.0

The hedges as at 30 June 2008 have maturities of up to eight months.

The Group employs futures traded at the respective commodity exchange to hedge and manage the risk arising from commodity price volatility (crude oil, aluminum, natural gas). Futures as at 30 June 2008 have maturities of up to eight months. Unrealized gains from the valuation of open contracts and the sale of closed future contracts pending physical delivery came to EUR 2,612 thousand as at 30 June 2008 (31 December 2007: EUR 1,138 thousand). These are recognized directly in equity.

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Note 23. Corporate bodies

In the general shareholders' meeting on 12 June, Winfried Braumann, managing director of B & C Holding GmbH, and Andreas Schmidradner, also of B & C Holding GmbH, were newly elected to the supervisory board.

Hermann Bell was elected chairman of the supervisory board and Walter Lederer was re-elected deputy chairman at the constituent meeting of the new supervisory board held after the general shareholders' meeting.

The supervisory board is now composed of the following members:

Hermann Bell, Linz
Chairman

Walter Lederer, Vienna
Deputy Chairman

Horst Bednar, Vienna

Winfried Braumann, Vienna (from 12 June 2008)

Martin Payer, Leoben

Andreas Schmidradner, Vienna (from 12 June 2008)

Veit Sorger, Vienna

Works Council Representatives:

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

Helmut Maderthaner
Deputy Chairman of the Company's Works Committee
Chairman of the White-Collar Workers' Council

Georg Liftinger (from 12 June 2008)
Deputy Chairman of the White-Collar Workers' Council

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

Note 24. Events after the balance sheet date

There were no significant events requiring inclusion in this report between the reporting date 30 June 2008 and the release for publication on 13 August 2008.

Note 25. Statement of the Management Board in compliance with section 87 of the Austrian Stock Exchange Act

The Management Board declares that these condensed interim consolidated financial statements of the Lenzing Group for the period from 1 January 2008 to 30 June 2008, which were compiled in accordance with IAS 34 ("Interim financial reporting"), present fairly, in all material respects, the financial position and the financial performance of all consolidated companies.

The Management Board further declares that the management report for the first half of the year, too, presents fairly, in all material respects, the financial position and the financial performance of the Lenzing Group and provides information on the course of business and the impact of essential risks and uncertainties on the business activities of the Lenzing Group.

These interim consolidated financial statements were neither audited nor reviewed by an auditor.

Lenzing, 13 August 2008

The Management Board:

Thomas Fahnemann **Christian Reisinger** **Peter Untersperger**

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Hochegger Financials, Vienna

Idea and Design by

ElectricArts, Lenzing

Printed by

kb-offset, Regau

Photography by

Michael Haegele