LIFE WITH LENZING

Annual Report 2006 Lenzing Group

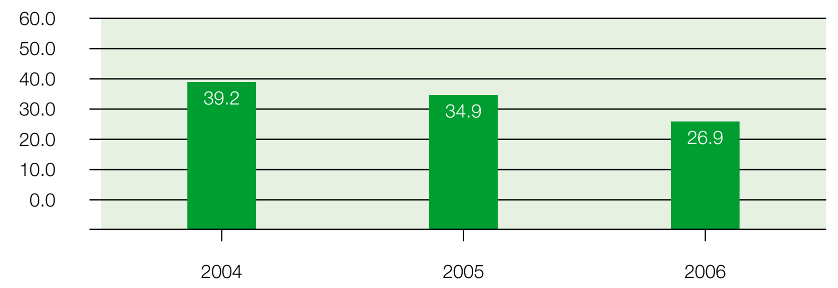
LENZING

LIFE WITH LENZING

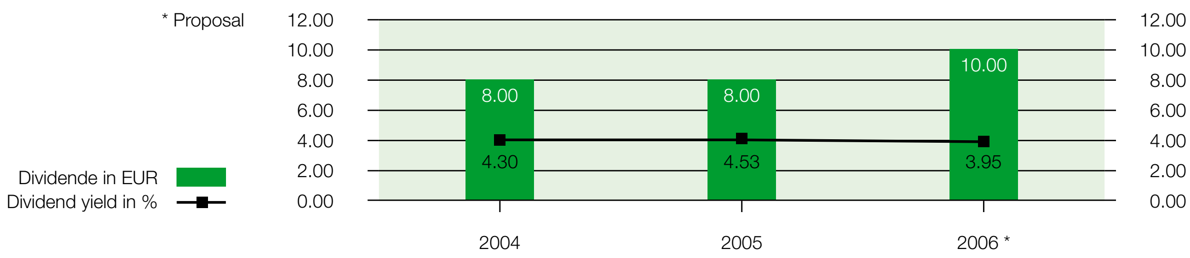
A day like any other day and Lenzing is part of your life without your even noticing. First of all, cellulose fibers made from the natural raw material wood – there is hardly a household, hardly a wardrobe without products made of Lenzing fibers. Then there are many other areas covered by Lenzing: Medicine or the food industry, your domestic or your professional life – products by Lenzing stand for excellent performance and highest demands. The pursuit of quality has been driving us for now seven decades and made us what we are – part of your life.

Key Data of the Lenzing Group According to IFRS

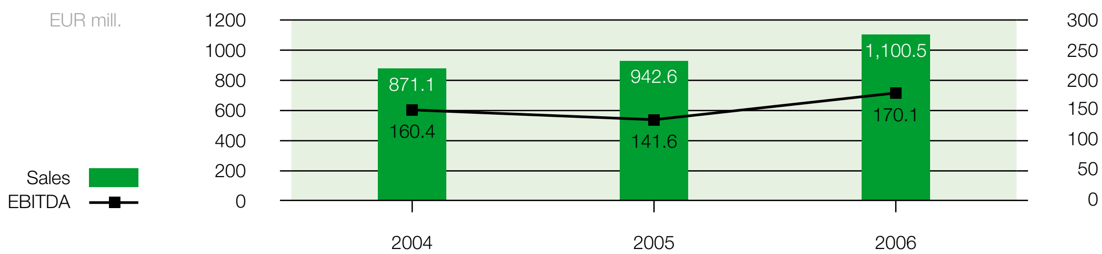
Net Gearing in %



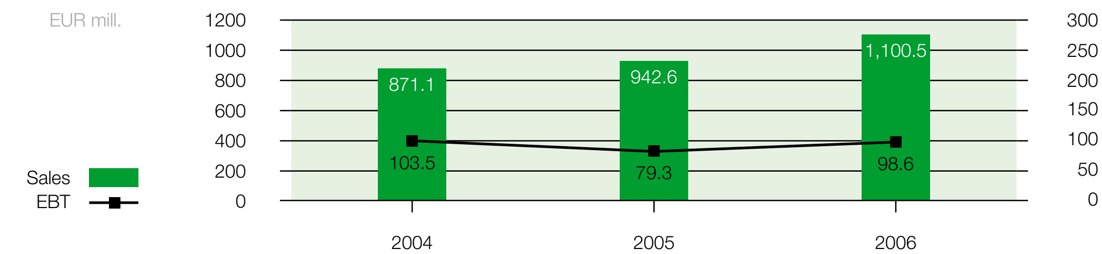
Dividend



Sales compared to EBITDA



Sales compared to EBT



Business results	2004	2005	2006
EUR mill.			
Sales	871.1	942.6	1,100.5
EBIT	104.3	81.8	107.1
EBIT margin in %	12.0	8.7	9.7
EBITDA	160.4	141.6	170.1
EBITDA margin in %	18.4	15.0	15.5
EBT	103.5	79.3	98.6
Share of net income of shareholders of Lenzing AG	67.7	56.9	83.9

Financing structure	2004	2005	2006
EUR mill.			
Cash	59.6	85.1	97.0
Inventories	116.9	124.1	123.9
Receivables	155.1	159.4	171.9
Liabilities	246.2	271.3	275.9
Net debt	179.7	169.0	145.9
Retained earnings	329.7	343.8	402.7
Net Gearing in %	39.2	34.9	26.9

Capital expenditure	2004	2005	2006
EUR mill.			
Capital expenditure			
Lenzing AG	43.7	63.5	41.1
Group total	60.9	82.4	105.3
Group depreciation and amortization	59.9	64.1	67.2

Cash flow	2004	2005	2006
EUR mill.			
Gross cash flow	128.5	120.4	147.9
Net cash from operating activities	95.3	124.3	146.1
Net increase (+) / decrease (-) in cash	-59.0	14.9	13.0
Cash and current investments	59.6	85.1	97.0

Capital structure	2004	2005	2006
EUR mill.			
Liabilities (excl. of post employment benefits)	421.7	452.3	444.4
Post employment benefits	63.8	73.0	74.4
Equity adjusted	460.5	484.8	542.9
ROCE in %	12.2	9.0	11.9
ROE in %	17.9	12.8	17.2

Stock exchange	2004	2005	2006
EUR			
Common stock in mill.	26.7	26.7	26.7
Market capitalization in mill.	683.2	648.6	930.3
Share price as at 31 Dec.	185.9	176.5	253.1
Earnings per share	18.41	15.48	22.83

Production	2004	2005	2006
in 1,000 tons			
Fibers (total)	414.2	453.8	478.1
Paper	73.3	74.7	78.9
Plastics	17.8	17.4	20.0

CONTENTS

Cover:
Lenzing never sleeps
Business Unit Textile Fibers – bed linen made of TENCEL®
Business Unit Textile Fibers – quilt filling made of TENCEL®
Business Unit Textile Fibers – nightwear: TENCEL® for high-quality lingerie

ABOUT US

The Lenzing Group is an international corporate group with headquarters in Upper Austria. We are present on all important world markets and we set standards in the field of man-made cellulose fibers with our quality and our innovations. Lenzing fibers are made of wood, the renewable raw material. They are used by the textile industry – for garments, home textiles and technical textiles – as well as by the nonwovens industry.

70 years of experience in fiber production make us the only manufacturer world-wide uniting all three generations of man-made cellulose fibers – viscose, modal and lyocell. The success of our group is based on the combination of consistent customer focus with technology and quality leadership.

Our economic strength is secured both by our focus on fiber specialties and our cost-competitiveness. Lenzing is committed to the principles of sustainable management with very high environmental standards. In addition to our core business fibers, we are active in business sectors engineering, plastics and paper.

Business Unit Textile Fibers

Fibers for textile applications
Shirts / blouses / outerwear / lingerie / home textiles

Business Unit Nonwoven Fibers

Fibers for the nonwovens industry
Sanitary / medical / cosmetics / home

Business Unit Pulp

Pulp
The primary material for fiber production at the Lenzing site

Chemicals
Acetic acid for the food industry and industrial applications
Furfural for the production of furfural alcohol and as a selective solvent for the crude oil industry
Magnesium lignin sulfonate for the animal food industry, for the ceramics and construction materials industry
Sodium sulfate for the detergent and cleaning agents industry, for the glass, textile and chemical industry
Xylose – basis of sugar substitutes (for example caries-inhibiting chewing gum)

Business Unit Engineering

Fiber and Pulp Technology
Viscose technology / pulp technology / separation technology / environmental technology
Mechanical Construction and Automation
Mechanical construction / industrial services / automation
Mechatronics
Electronics / marking systems / robotics

Business Unit Plastics

Thermoplastics
Films, tapes and yarns / technical fabrics and laminates
PTFE (polytetrafluoroethylene)
Fibers and yarns for filtration / filaments for compression packings

Business Unit Paper

Recycled paper
Poster paper
Envelope paper
FSC paper

Business Unit Energy

Electricity
Heat
Utilities
Disposal management

TEXTILE FIBERS

World Leader in Cellulose Fiber Technology

TENCEL®
THE NEW AGE FIBER

TENCEL® – the breakthrough innovation in modern fiber technology. The unique nanofibrillar structure of TENCEL® creates its natural properties: soft as silk, strong as polyester, cool as linen, warm as wool and more absorbent than cotton.

Areas of application:
Home textiles: quilts and bed linen
Clothing: shirts, blouses, sportswear, outerwear

LENZING Modal®
MAKES THE WORLD A SOFTER PLACE

Softness through and through. Lenzing Modal® has been unrivaled for more than 40 years – the embodiment of softness on skin. The fiber retains its marvelous softness, brightness and brilliance even after many washings.

Areas of application:
Home textiles: terry products
Clothing: homewear and lingerie, fashionable knit tops

LENZING Viscose®
SETS THE INDUSTRY STANDARD

70 years of experience in manufacturing viscose fibers set the international processing quality standard.

Areas of application:
Apparel in knitted or woven fabrics

Lenzing FR®
THE HEAT PROTECTION FIBER

The extraordinary properties of this special fiber, its thermal insulation and moisture management, reduce the risk of heat stress and heat stroke and improve protection against second-degree and third-degree burns.

Areas of application:
Highly flame-retardant protective clothing, textiles for public transport, fire blockers and nonwovens

LENZING FIBERS

EXCELLENCE IN NONWOVENS

NONWOVEN FIBERS

Fibers for sensitive areas

Lenzing fibers made from the raw material wood are exceptionally absorbent and pure. That makes them the ideal material for demanding nonwovens applications.

Nonwovens made of Lenzing fibers are used in sensitive areas of sanitary, medical and cosmetics applications. Well-known products are wet wipes for infant care, make-up removal and refreshing. Medical applications include wound care pads, surgical swabs and components of surgical scrubs. Domestic and personal hygiene applications are other areas of strong growth.

Lenzing with six production sites in Europe, Asia and America is the unique global and flexible provider of nonwoven cellulose fibers. Our world-leading position is emphasized by the globally most advanced fiber production line at the Lenzing site and the steady expansion of the nonwovens business at all locations.

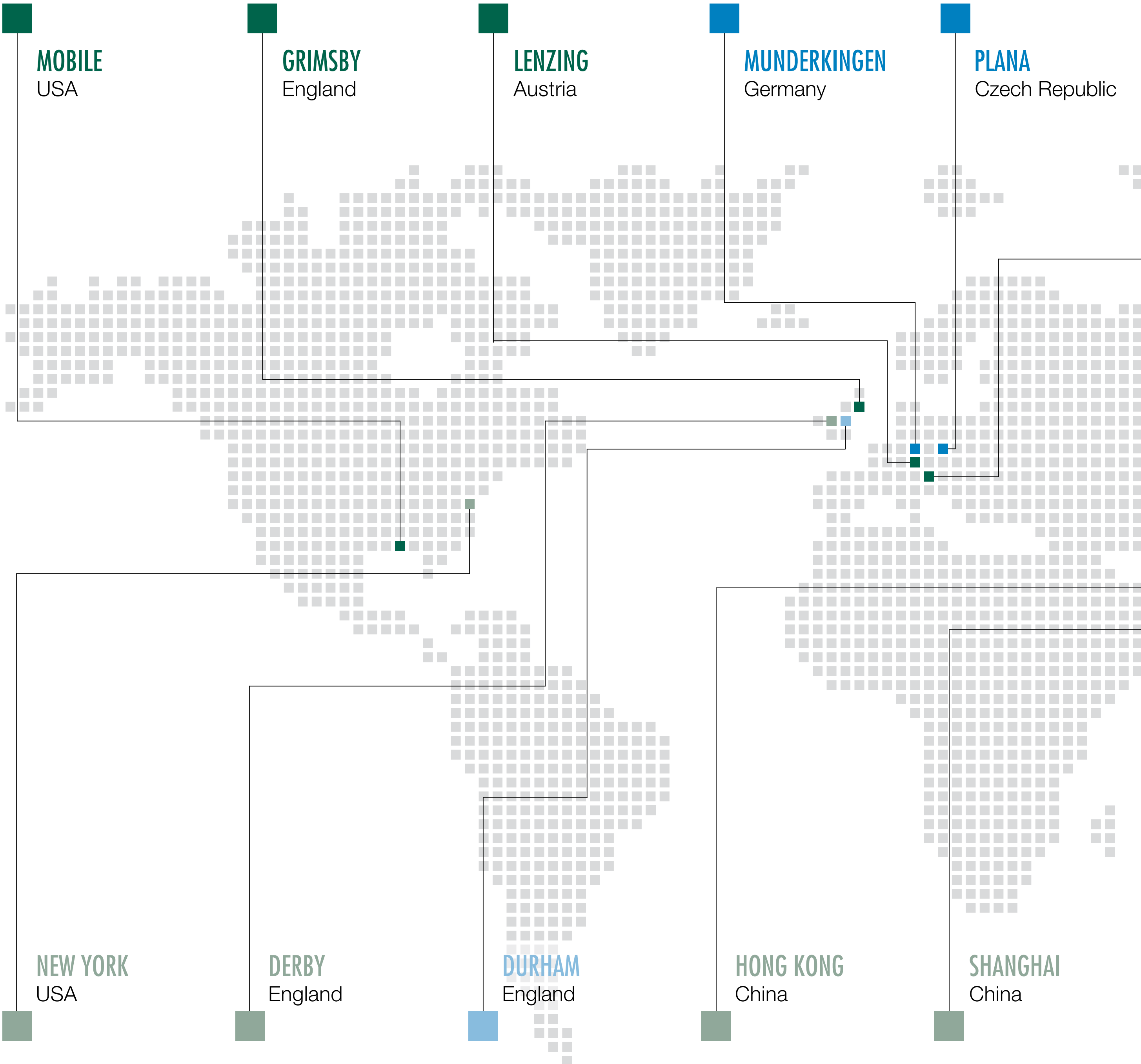
LENZING VISCOSE®
THE WORLD'S LEADING NONWOVEN FIBER

TENCEL®, the lyocell fiber with the prestigious European Environmental Award, is perfectly suited for nonwovens and shows great potential for opening new product markets. The new generation of specialty medical dressings made of TENCEL® fibers meets the continuously rising standards of health care product quality.

TENCEL®
LENZING LYOCELL®
THE ADVANCED NONWOVEN CELLULOSIC FIBERS

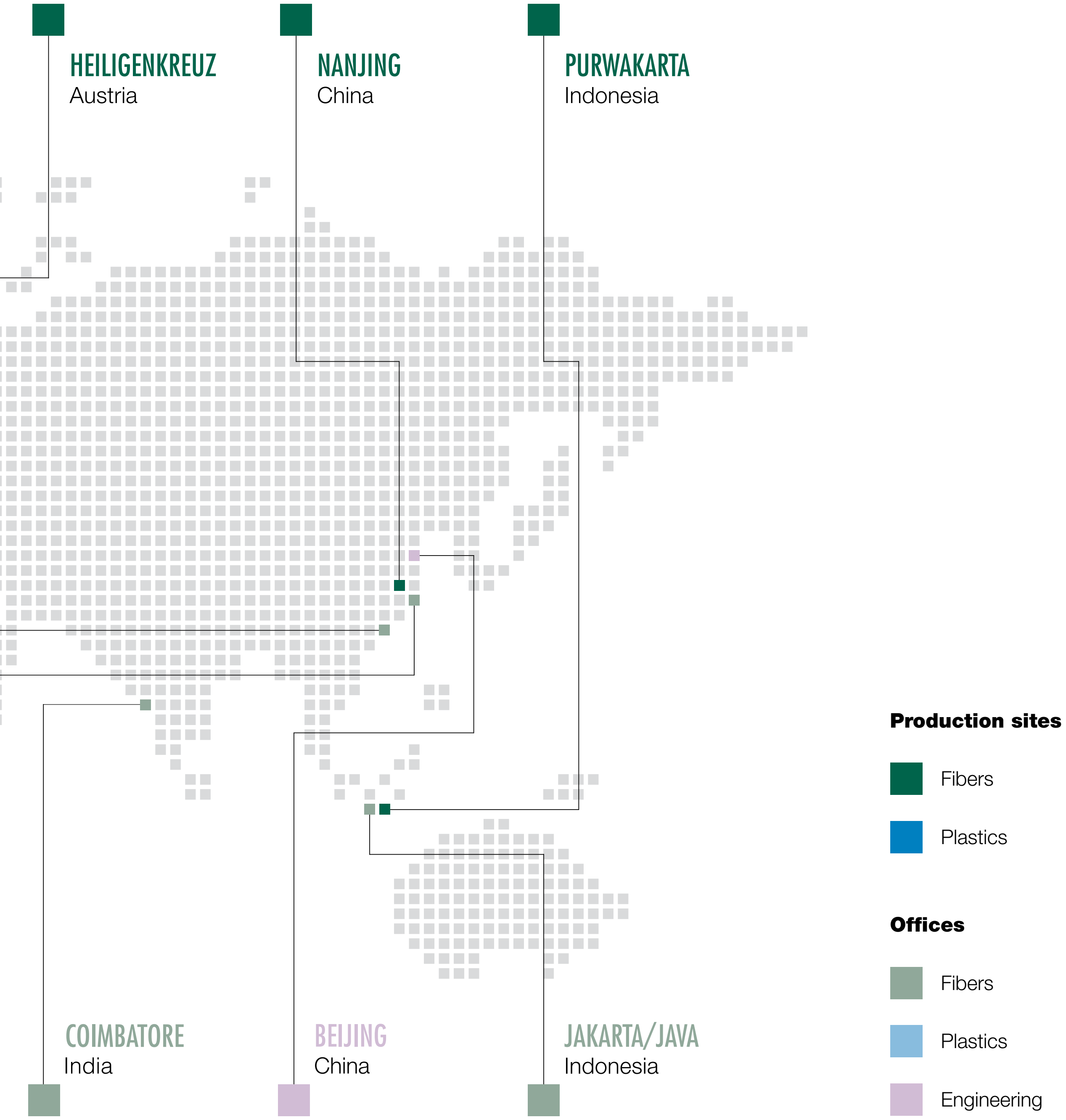
OUR LOCATIONS

April 2007



The global activities of our Business Units are directed and coordinated from the headquarters at Lenzing which is also the home of the Group's research and development facilities.

Product development, production planning, marketing and logistics of business sector fibers are geared to maximum customer service. The cooperation of project-focused and translocal teams challenges the flexibility and the responsibility of our staff. Lenzing's involvement in a multitude of fairs each year shows our commitment to both global presence and local proximity to the customer.



THE MANAGEMENT BOARD

Thomas Fahnemann
Chairman (image left)

Business Unit Textile Fibers

Business Unit Nonwoven Fibers

Business Unit Pulp

Responsibilities

Human Resources
Business Development
Innovation and Patents
Corporate Communications
Corporate Compliance
Internal Group Auditing

Direct and indirect investments

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

Christian Reisinger
(image right)

Business Unit Engineering

Business Unit Energy

Responsibilities

Safety and Security
Environment
Infrastructure

Direct and indirect investments

Lenzing Technik GmbH
RVL Reststoffverwertung Lenzing GmbH
LENO Electronics GmbH

Peter Untersperger
(image center)

Business Unit Plastics

Business Unit Paper

Responsibilities

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

Direct and indirect investments

Lenzing Plastics GmbH

Thomas Fahnemann

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

EDITORIAL
by the Chairman of the Board

Ladies and Gentlemen,

2006 was the most successful year in the corporate history of Lenzing. Not only did we improve all relevant key figures to all-time record levels, but we also set important milestones on our road to future success.

Our strategic position as the global market and technology leader in our core business cellulose fibers allowed us to make the most of the good economic conditions of 2006. Material to this result were: our focus on the customer, successful development of new applications in the textile business, ever increasing focus on high-quality specialty products and new developments and applications in the nonwovens sector with its highly attractive future.

But 2006 has also been a year of laying the tracks for the continuous optimization of our production costs. Project “Fit for the Future”, started at the beginning of 2006, has already resulted in measurable cost optimization which will continue throughout the coming years. This project has sharpened the awareness of our staff to identify improvement opportunities, however small they may be, and will be continued. These are the instruments with which we will counter the development of energy and raw material prices. As a consequence, we will be able to realize savings in the double-digit million euro range. We also reorganized our research and development activities and brought innovation even closer to our operating units. This will enable us to respond much faster with new developments to future market demands.

But even if the fiber market has regained some of its stability after a very difficult year 2005, we must not forget that the future growth of our industry will take place in Asia. This trend is unbroken and will be irreversible. However, Europe has proven in 2006 that innovation, creativity, quality and design can create competitive products for the market. But the Asian textile industry continues to gain global market share with export growth in the double-digit range. Projections that every other textile product will be labeled “Made in China” at the end of this development are becoming more and more realistic and Asia is also becoming more and more attractive as an end consumer market for textiles and nonwovens. Growing prosperity and an aspiring middle class are additional factors in the long-term growth of our industry in this region.

Our regional strategic goal, therefore, is further specialization and continuous growth in Europe, and above average growth in Asia. Lenzing today already derives considerable benefit from the Asian textile industry. Our exports of specialty fibers from Europe to Asia in 2006 reached new record levels. We will be able to make even more of this dynamic expansion in the years to come. The construction of our viscose fiber plant at Nanjing / China made good progress in 2006. 2007 will see the start of production. Moreover, we entered the important Indian fiber market by establishing a branch office.

In 2006, Lenzing also scored in the non-fiber sectors Plastics and Engineering. Lenzing Plastics asserted itself as a supplier of specialty products in Europe and its expansion rate is remarkable. In the engineering sector we are known worldwide as a competent partner of the cellulose and fiber industry with great expertise in mechanical engineering and attractive growth potential.

The strategic position we have achieved therefore gives us confidence for 2007. We will secure our market leadership by continued expansion and our ambitious development program will extend our lead in technology. It is our goal to derive above-average benefit from the upswing of the cellulose fiber industry.

On behalf of our staff and our shareholders I want to sincerely thank our customers for their cooperation in the past year. My special thanks go to all our staff members for the enormous dedication that made 2006 such a successful year.

Lenzing, March 2007

Thomas Fahnemann

LIFE WITH LENZING

Life with Lenzing

5:10 am Lenzing Never Sleeps

Lenzing's biggest production site for cellulose and viscose fibers has now been working for seven decades: around the clock, day in day out. Innovations in cellulose fibers, made from the natural raw material wood, originate from Lenzing – the world's unique competence center for fiber research.

Lenzing never sleeps, but it is your sleep and your relaxation that are constantly on the minds of Lenzing's innovators. They created the revolutionary TENCEL® fiber that unfolds its strengths to enfold you: Smooth to the touch, cool on the skin, silky gloss and natural moisture management: TENCEL® quilts and bed linen are well-being pure for people with sensitive skin.

Business Unit
Textile Fibers

TENCEL®
for bed-linen

Business Unit
Textile Fibers

TENCEL® for
quilt fillings

Business Unit
Textile Fibers
TENCEL®
for high-quality
lingerie

Business Unit
Plastics
Lenzing
PROFILEN®
for dental floss

6:50 am Made by Lenzing – Naturally

Lenzing Modal® – the essence of softness in your bathroom. Supple and tender, subtle look and brilliant sheen: Lenzing Modal®, the attractive material of choice for high-quality domestic textiles, such as terry products, and for soft body wear. MicroModal®: cellulose fibers' finest. Spin out an ounce to 180 miles – that is microfiber fineness you can touch.

Business Unit
Textile Fibers

Lenzing Modal®
for terry products

Lenzing Modal® is made from beech wood: that means 100% nature. Cellulose made at Lenzing is cellulose from European forests under sustainable care. Lenzing is the world champion of closed production cycles. Over the years we optimized the complicated production process to full ecological soundness.

Business Unit
Fiber Nonwovens
Lenzing Viscose®
for cosmetic
wipes

The raw material's contribution to the quality of Lenzing Modal® is proven, its beech wood is credited with providing the characteristic properties that make the fiber so unique.

Business Unit
Pulp
Sodium sulfate for the glass industry

7:40 am Breakfast with Lenzing

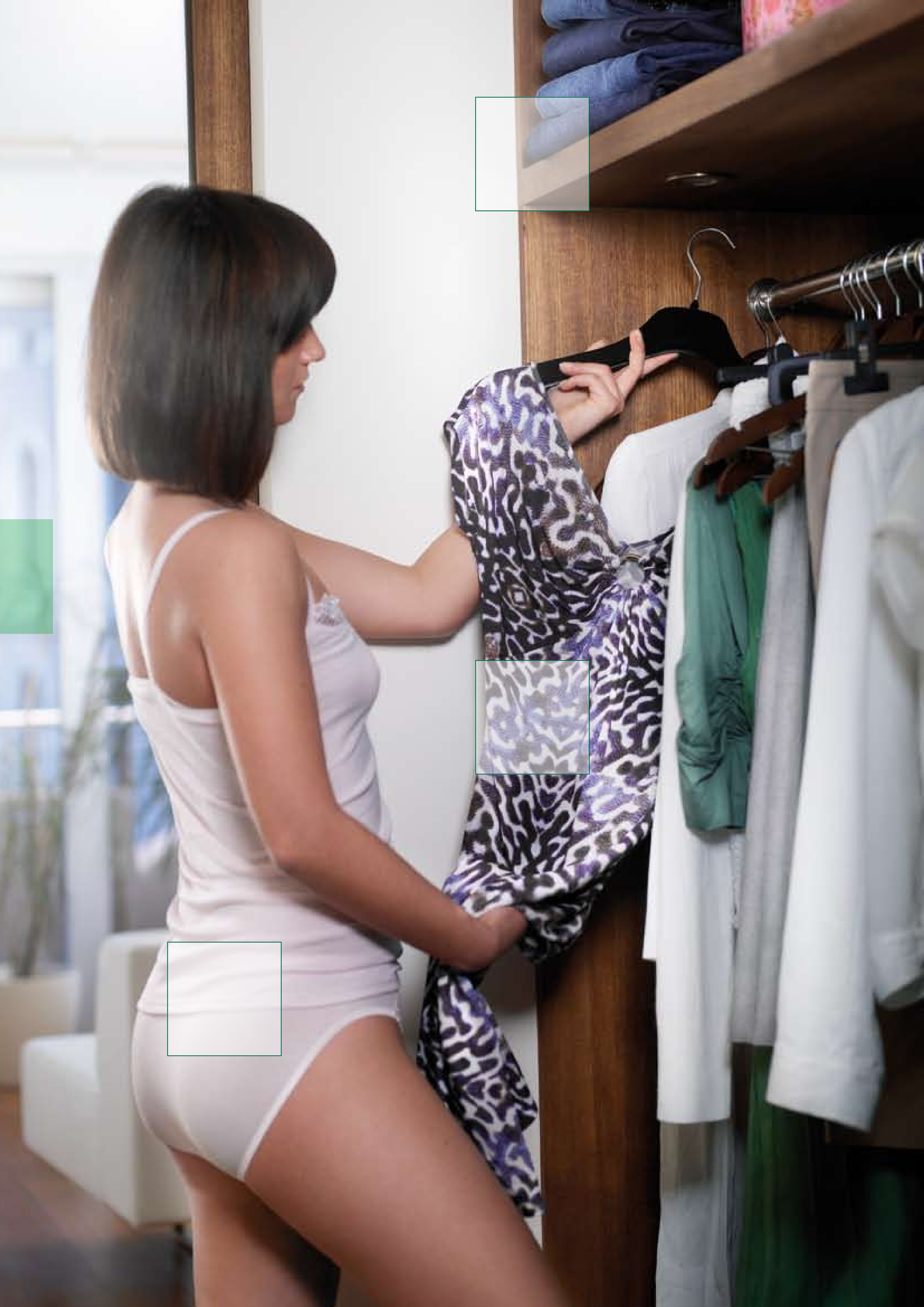
The natural raw material wood has made sustainability a lived reality at Lenzing.

Cellulose is only one resource that Lenzing extracts from wood, while at the same time minimizing environment load and maximizing resource utility: Acetic acid is the natural preservative for pickling gherkins and curing herring. Xylose (wood sugar) is the basis of caries-inhibiting sweeteners and sodium sulfate is used in glass production. The remaining biomass goes to thermal utilization and is a major contributor to the energy supply of the company.

Apart from its core business fibers, Lenzing is successful in other business fields as well, such as in engineering, plastics and paper, providing goods and services to a broad spectrum of international customers from a wide range of industries, such as automotive, cosmetics, medical and food. Many of the products that you meet in your day are made by Lenzing.

Business Unit
Pulp
Acetic acid for the food industry

Business Unit
Plastics
Special films for labels



Business Unit
Textile Fibers

TENCEL® for
designer jeans

8:10 am Lenzing Goes Fashion

Successful designers use brand fibers by Lenzing.

TENCEL® is the function fiber of the future, cool and light, for jeans, for high-quality home textiles, for lifestyle sportswear. Nike, Adidas or Löffler are but a few of the well-known brands that opt for future's fiber.

Lenzing Modal® has been the first choice of many brands for years: Diesel, Just Cavalli, Versace, Emanuel Ungaro, Mango or Lacoste – their fine collections display the luxury values of Lenzing Modal®.

Lenzing Viscose® is the classic all-rounder of the Lenzing cellulose fiber family: High-quality T-shirts, blouses, trendy dresses – Lenzing Viscose® is the basis of fashionable ease-of-wear that comes in many styles.

Business Unit
Textile Fibers
Lenzing Viscose®
for women's
outerwear

Business Unit
Textile Fibers
Lenzing Modal®
for high-quality
lingerie


sicher tanken
7

Business Unit
Paper
Paper for billboard advertising

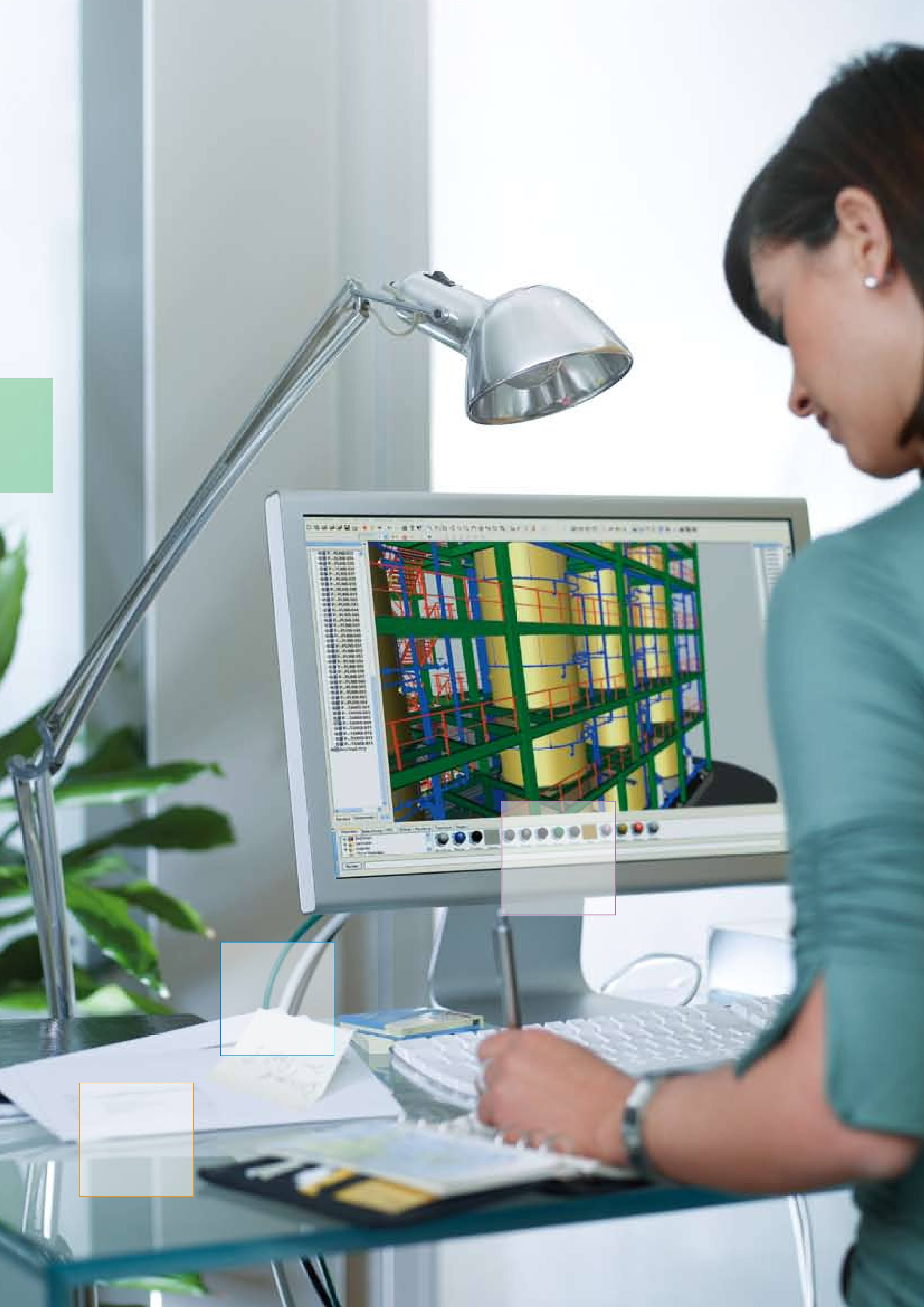
8:40 am Lenzing Protects

Business Unit
Textile Fibers
Lenzing FR® for protective wear

Dangerous jobs and hot spots, that is where you find Lenzing FR® – the heat protection fiber made by Lenzing. Lenzing FR® combines unique heat insulation with lasting low flammability. Apart from its protective function, Lenzing FR® guarantees greatest ease-of-wear as it is made from the natural raw material wood. Its breathability as well as its excellent skin properties make Lenzing FR® the indispensable fiber for a wide range of applications: industrial workers, firemen and firewomen, police officers and gas station attendants, they all rely on the unique protective properties of Lenzing FR®. It is one of the fastest growing fiber specialties of the Lenzing Group and is marketed worldwide.

By the by, the top quality poster paper for outdoor advertising on the billboard in the background is made by Lenzing, too – just as the paper of your hard copy of this annual report.

Business Unit
Engineering
High tech for the automotive industry



10:30 am Lenzing – Success by Design

Our position as the international innovation leader is not just a result of our unique products. It is the technological accomplishments of the Lenzing Group that are trendsetting and unsurpassed in many areas. The independent player Lenzing Technik is an engineering company that supports its industrial partners with globally respected performance in plant engineering, automation, environmental technology and, of course, fiber and pulp technology. Major companies from a variety of industries rely on our services and expertise. From customer-specific development to turnkey delivery on time: years of experience and the steady pursuit of perfection stand for excellent performance and quality.

And by the way: the envelopes on the table are made by Lenzing, too. The committed team at our small but fine paper factory is dedicated to generating niche success: we manufacture fine poster paper for outdoor advertising, superior envelopes and high-quality recycled paper.

Business Unit
Engineering
Engineering for industrial applications

Business Unit
Plastics
Special films for the cable industry

Business Unit
Paper
Special paper for envelopes

Business Unit
Plastics
Lenzing
PROFILEN® for
textile architecture

12:45 am Lenzing Covers all Angles

Innovative niche solutions for highly demanding requirements and short development times: that is Lenzing Plastics, another Lenzing Group subsidiary. More than half of the sales generated by this innovation hotbed result from products that are no older than three years. All of them are leaders in a total of fifteen product groups, from artificial turf to medical technology. Lenzing and its PTFE membrane architecture cover all angles, from aesthetics to durability: highest weather resistance, flexibility even at lowest ambient temperatures and optimum protection from ultraviolet radiation make every Lenzing PROFILEN® product the perfect high-end material for awnings and outdoor textile membrane structures.

Business Unit
Pulp

Acetic acid for
the food industry

Business Unit
Pulp
Sodium sulfate
for the
glass industry


EXCITE

Business Unit
Textile Fibers

TENCEL®
for sportswear

5:20 pm Work Out with Lenzing

Treadmill or marathon – sports enthusiasts all over the world work out with Lenzing, their important and future-oriented partner for innovative function wear. The perfect sports fiber is TENCEL®. Its natural intelligence makes it unique: sub-microscopic channels between the nanofibrils regulate absorption and release of moisture. TENCEL® moisture management surpasses synthetic fibers and enables natural excellence in sports. But more: perfect skin properties and a number of other characteristics, such as reduced bacterial growth and natural purity make this fiber the fiber of the future.

Lenzing nonwoven fibers expand from their original field of sensitive applications in hygiene, medical and cosmetics into sports: for example as fleece materials for hygienic and absorbent inserts for runners' shoes.

Business Unit
Plastics
Lenzing
PROFILEN® for
runners' socks

Business Unit
Fiber Nonwovens
TENCEL® for
inserts of
runners' shoes


Energy Tabs
NEU

7:40 pm Lenzing – Rely on it

Lenzing fibers made of the natural raw material wood are exceptionally absorbent and pure – characteristics that make them the ideal materials for meeting the demanding requirements expected from nonwovens.

Therefore you find Lenzing fibers wherever absolute cleanness and absorbency are a must. Among these areas are cosmetics products, such as cleaning pads, wipes for makeup removal, as well as women's personal care, but also general domestic cleaning products, such as all-purpose wipes and cloths.

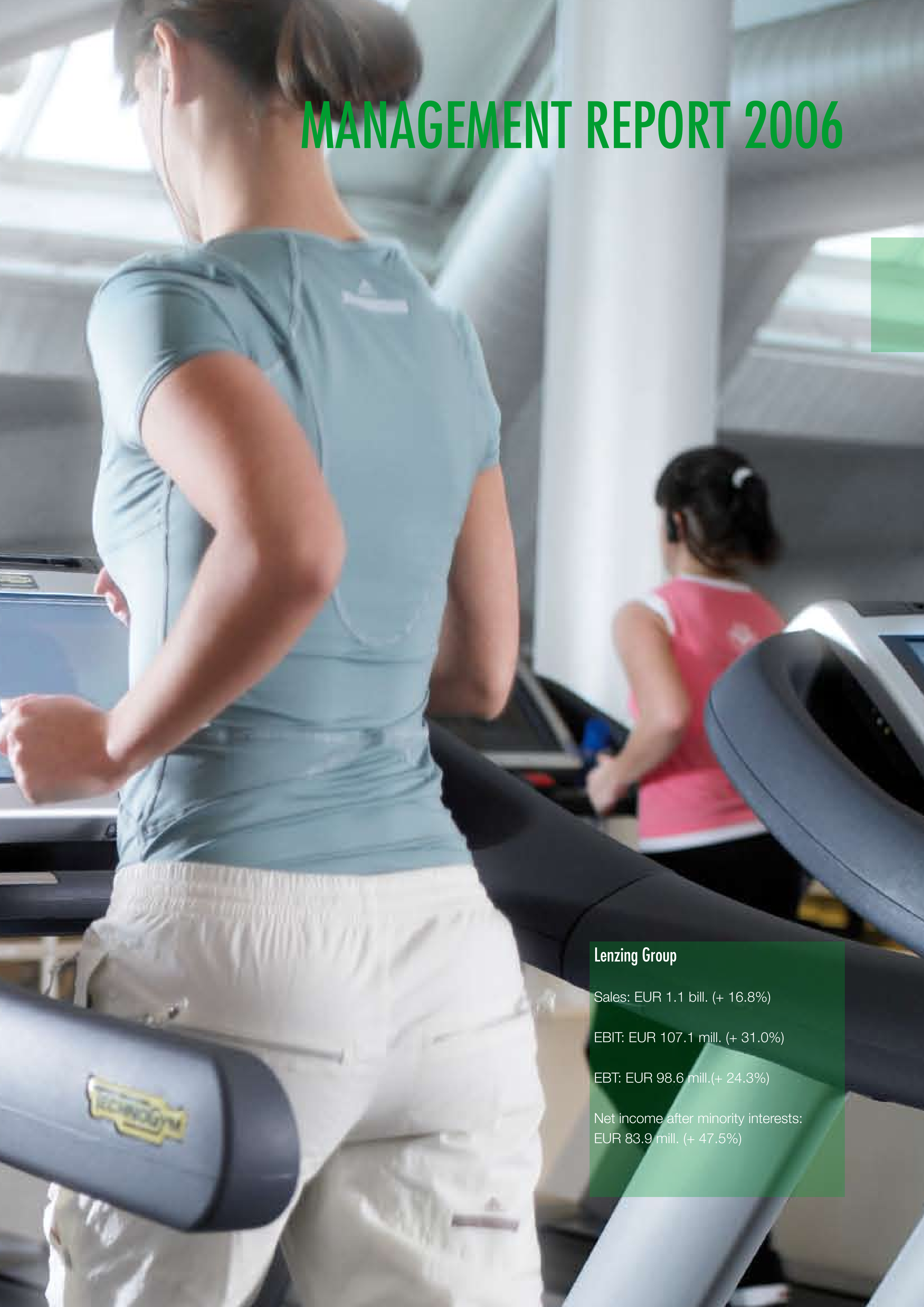
The most important job of Lenzing nonwoven fibers, however, is in medical applications: they serve in swabs, pads and disposable clothing to save lives and to maintain health.

Business Unit
Fiber Nonwovens
Lenzing Viscose®
for domestic
products

Business Unit
Fiber Nonwovens
Lenzing Viscose®
for domestic
products

Business Unit
Pulp
Sodium sulfate
for detergents

MANAGEMENT REPORT 2006



Lenzing Group

Sales: EUR 1.1 bill. (+ 16.8%)

EBIT: EUR 107.1 mill. (+ 31.0%)

EBT: EUR 98.6 mill.(+ 24.3%)

Net income after minority interests:
EUR 83.9 mill. (+ 47.5%)

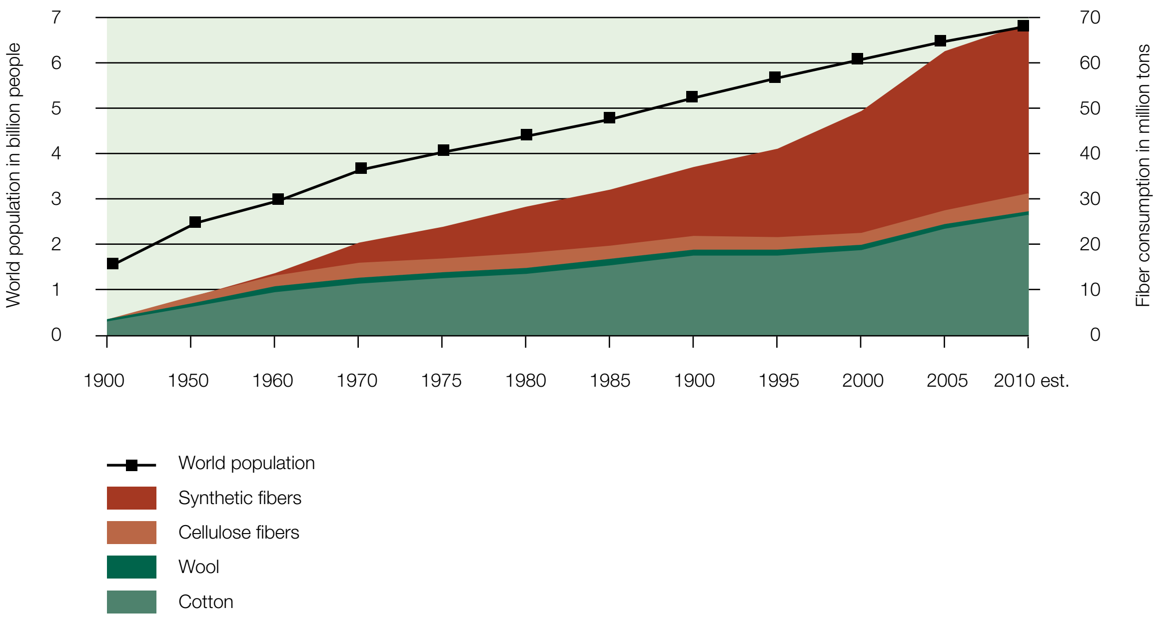
General Market Environment

The market environment for the Lenzing Group in business year 2006 was characterized by improved general economic conditions, as compared to those of the difficult year 2005. Economic recovery in the euro zone continued with a growth in GDP of 2.6%[1] (2005: 1.5%), in particular in Germany where private consumption showed clear signs of picking up. The Asian business engine showed no signs of wear, despite high energy and raw material prices. GDP growth in China, the world's most important market for textile fibers, again reached a record level of an estimated 10.6% (2005: 10.2%). Other important Asian economies, such as India, Korea and Japan also developed very well. Even with economic growth in the United States stagnating at a high level in 2006, private consumption remained the driving force.

The adverse raw material price development that had started in 2004 continued in most markets relevant to the Lenzing Group (wood, pulp, chemicals, plastics raw materials). Thus the Dow Jones AIG commodity index rose by 18.6% between the beginning of 2004 and the end of 2006. Energy prices continued to rise as well.

The sales market for cellulose fibers, the most important segment of the Group, developed well in all global economic regions due to generally favorable economic conditions. The global demand for services of Business Unit Engineering was gratifying, too. Business Unit Plastics benefited from the economic recovery in Europe. The market for Business Unit Paper showed signs of recovery in the course of 2006.

World population and fiber consumption



[1] all economic data source OECD

Development of the Lenzing Group

The Lenzing Group made optimum use of the positive general economic conditions in 2006 and reached new, all-time record levels in all relevant business key indicators. Consolidated sales of the Lenzing Group for the first time exceeded the billion euro mark with EUR 1.1 bill. (2005: EUR 942.6 mill.), corresponding to a growth in sales by 16.8%. This dynamic growth was based on the further expansion of production capacity in business sector fibers, price adaptations to rising raw material costs and the further improvement of the product portfolio towards more attractive margins. Core business Fibers generated 80.9% of consolidated sales, followed by Plastics 8.3%, Paper 5.3% and Engineering 5.4% (external sales only).

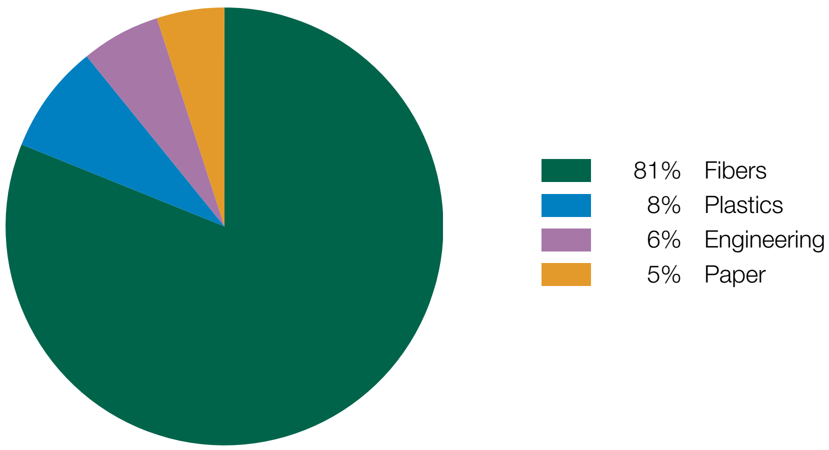
The increase in cost of material and purchased services for the Group by 21.3% was significantly higher than the sales increase, reflecting the strong rise in raw material and energy costs. Energy alone, with natural gas as a major contributor, cost about EUR 10 mill. more in business year 2006 than in 2005.

Other operating expenses increased due to the intensive activity in various fields by 9.6% to EUR 126.4 mill. EBITDA improved by 20.1% to EUR 170.1 mill. (2005: EUR 141.6 mill.). EBIT came to EUR 107.1 mill., corresponding to an increase of 31.0% over 2005 (EUR 81.8 mill.). EBT at EUR 98.6 mill. (2005: EUR 79.3 mill.) was 24.3% higher than in business year 2005. As in 2005, all business sectors, with the exception of Paper, provided positive contributions to results.

Due to less taxes on income, annual net income improved by 45.6% to EUR 88.4 mill. (2005: EUR 60.7 mill.). The share of shareholders of Lenzing AG of EUR 83.9 mill. yielded earnings per share of EUR 22.83 (2005: EUR 15.48), corresponding to an increase of 47.5%. In view of this new record result, the management board will propose to the general shareholders‘ meeting the distribution of a dividend of EUR 10 per share (2005: EUR 8 per share).

Lenzing Group: Sales by segment

100% = EUR 1.1 bill.



Further investment in capacity expansion

Investments of the Lenzing Group in property, plant and equipment and intangible assets in business year 2006 were at EUR 105.3 mill. (2005: EUR 82.4 mill.) The focus, as in previous years, was on the continuous expansion and modernization of production capacity and infrastructure in business sector fibers and on the extension of extraction of chemicals as by-products of pulp production at the Lenzing site. The continued intensive construction activity at the new viscose fiber plant at Nanjing in China was another significant activity. In addition, Business Unit Engineering expanded into the field of sheet metal processing.

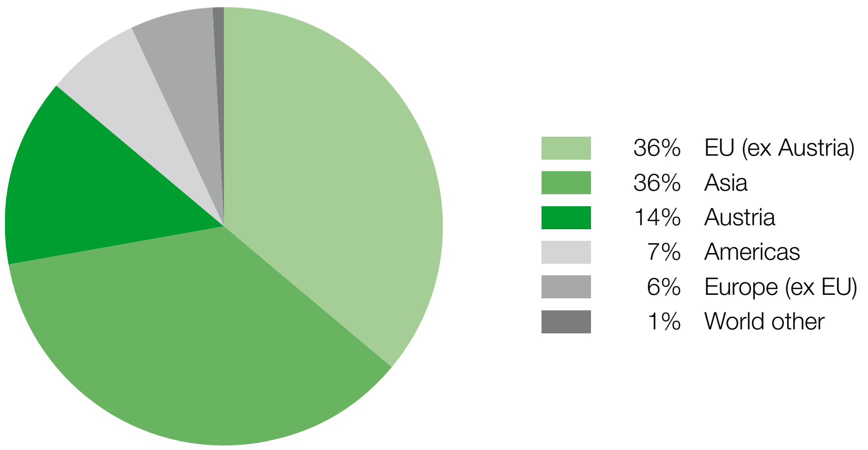
Consistently sound balance sheet structure

The key indicators of the Group's balance sheet remain solid, despite the dynamic expansion of the last few years. The increase of the balance sheet total of 5.1% to EUR 1.1 bill. was kept significantly below the increase in sales. Equity increased by 13.3% to EUR 516.0 mill., corresponding to an equity ratio, based on equity adjusted[2], of 51.1% (2005: 48.0%) of the balance sheet total. Long-term liabilities were lowered to EUR 308.9 mill. (2005: EUR 314.2 mill.). Due to the strong cash flow, net debt was lowered by 13.7% from EUR 169.0 mill to EUR 145.9 mill.

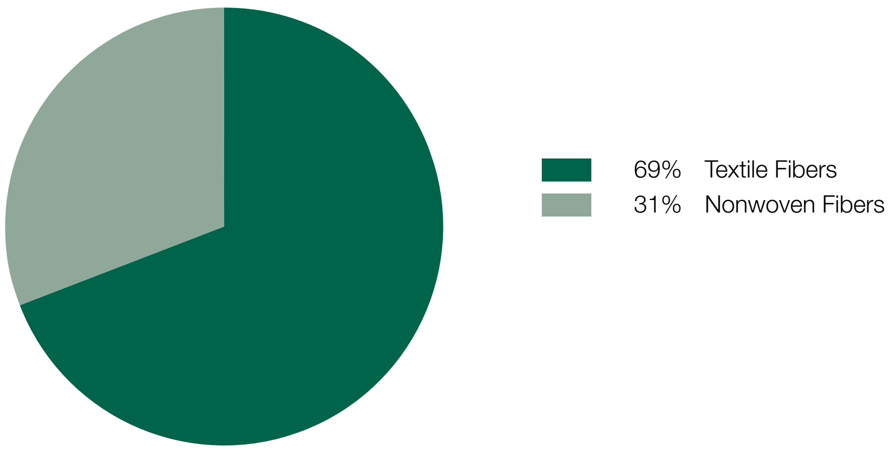
[2] equity incl. investment grants less proportionate deferred taxes

Lenzing Group: Sales by region

100% = EUR 1.1 bill.



Lenzing Group: Sales distribution core business fibers



Segment Fibers

Good market environment

Lenzing Fibers continues expansion

After the difficult general conditions of 2005, business year 2006 saw stabilization and improvement in the global market environment of the fiber business. Several factors contributed to this development:

- The dramatic trade policy changes of 2005 with their liberalization of textile import quotas for China enabled those European companies who had managed to master that shock to regain territory and to stabilize and expand their sales markets. The result was a recovery of the European market for textile fibers.
- The economic recovery noticeable all over Europe, in particular the rise in private consumption and investment activity in Germany, contributed to improved framework conditions as did the continued positive environment in the Americas.
- The economic development and private consumption of Asia's emerging economies currently moves only in one direction – towards dynamic expansion of export production and domestic consumption.

Against these positive macroeconomic conditions, however, stood considerable challenges:

- The continued rise in energy and raw material prices.
- Weather and demand related shortages in European wood supply, the prime raw material for pulp and fiber production.
- The weaker US dollar caused disadvantages against Asian suppliers for the fiber processing industry in the euro zone.

Global fiber production

First estimates rate the global 2006 fiber production (cotton, wool, chemical fibers) at 68.2 mill. tons – an increase of 2.9% over 2005. The individual fiber shares are: cotton 25.3 mill. tons (up 2.5%), wool 1.2 mill. tons (down 1.2%) and chemical fibers 41.7 mill. tons (up 3.3%).

Viscose fiber boom continues

Growth in man-made cellulose fiber production by about 5% to 3.4 mill. tons was above average, as in 2005. The share of viscose staple fibers (including modal, excluding lyocell), Lenzing's core business, grew by 9% to 2.2 mill. tons. The major part of this expansion again took place in Asia. Chinese viscose staple fiber production grew by an estimated 13% to 968,000 tons, followed by Indonesia 13%, Taiwan, 15%, and India, 7%. Western Europe saw an increase of 7%. Eastern European production, however, fell by 18% due to the closure of one manufacturer. Production in America was lower as well, with the last viscose fiber production plant in the USA closing production. Global viscose fiber consumption in 2006 increased strongly, just as in 2005. This affected textile and nonwoven fibers, rising by 10% and 7% respectively, with Asian demand for textile fiber specialties at an unchanged high.

China the biggest fiber producer by far

Growth in chemical fibers in 2006 focused exclusively on China, with an increase of 13% to an estimated 20.3 mill. tons, and India with an increase of 12% to 2.4 mill. tons. China further extended its dominant position (to almost half of the global production) as the world's biggest producer of chemical fibers by far. The country is now almost self-sufficient in the production of standard fibers. Production in all other major regions declined, such as in the USA, 8%, and Europe, 1%. As opposed to the positive trend in China and India, production in other Asian countries declined as well, such as in Taiwan, 7%, Korea 12% and Thailand 10%.

Cotton prices slightly recovered, polyester and viscose prices slightly higher

After their 2005 decline by 11%, cotton prices slightly recovered from their all-year low in May 2006 of 55 USD cts/lb to 61 USD cts/lb at year-end. The rise was carried by the strong demand in China and India, while cotton processing in Western Europe, the USA and Japan declined. No major change in current US cotton subsidies is to be expected for the time being.

Prices for polyester staple fibers in 2006 rose due to higher raw material prices by 3% in Europe and in the USA, the corresponding price increase in Asia of 7% was significantly more pronounced.

Prices for viscose staple fibers in Western Europe were increased in the course of 2006, the annual average price, however, was only slightly above that of 2005.

Lenzing Fibers continues dynamic expansion

In business year 2006 the Lenzing Group continued its dynamic expansion of segment Fibers.

Sales by segment reporting were at EUR 902.8 mill. (2005: 779.6 mill.) The consolidated segment EBIT reached a new all-time high of EUR 89.6 mill. (2005: EUR 66.6 mill.), corresponding to an EBIT margin in segment Fibers of 9.9% (2005: 8.5%).

This very good segment result was mainly due to the dynamic development of Business Unit Textile Fibers, but Business Unit Nonwoven Fibers showed significant improvement in the course of the year as well. Production capacity in business year 2006 was again fully utilized and new production records were set at all sites, partly even exceeding targets.

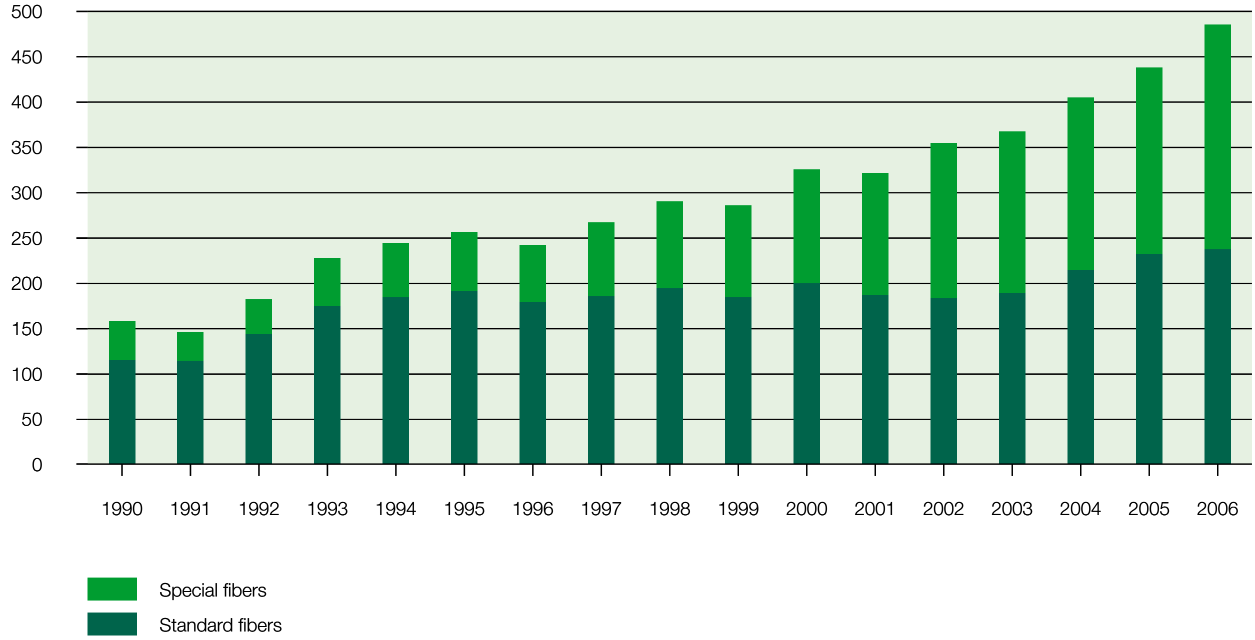
Global market development was expanded by the establishment of a new branch office in India. Further concentration on hard-to-substitute products with high margins and on innovative product applications proved successful.

Further investment in the optimization and increased flexibility of fiber production enabled the annual production capacity at the Lenzing site to be raised to about 230,000 tons (2005: 225,000 tons). As a result, the share of high-value fiber specialities with good margins was increased again. The Indonesian subsidiary PT. South Pacific Viscose achieved a new production record by the consistent elimination of bottlenecks. The TENCEL® sites at Mobile / USA, Grimsby / UK and Heiligenkreuz / Austria also generated very good production results.

Stocks in 2006 were greatly reduced across the Group due to strong demand.

Production in the Lenzing Group reached its highest level ever with 480,000 tons of cellulose fibers, again proving Lenzing to be the world market leader in cellulose staple fibers.

Lenzing Group production in ´000 tons



The raw material supply for the Lenzing Group was well secured despite severe market shortages of wood and pulp. The snowy winter of 2005/06 and strong demand for wood by cogeneration plants and private households led to an undersupply of beech wood in Central Europe. Weather prevented felling to meet industrial demand, even leading to the temporary closure of saw mills and other wood processing enterprises in Austria.

These adverse general conditions for the European timber industry as a consequence led to an average price increase for timber in 2006 of about 11% over 2005. Global pulp prices (NBSK), too, rose by about 10%. The continued rise in energy prices, especially for natural gas, led to considerable additional costs of EUR 10 mill. Despite the very high degree of self-sufficiency in energy production at the Group‘s biggest production site, Lenzing, additional costs of about 15% for the provision of energy over 2005 had to be absorbed group-wide.

Global market presence, growth in Asia

The stabilization of the European textile industry in 2006 after the dramatic changes in the market of 2005 should not hide the fact that the long-term shift in production capacity to Asia will continue.

Lenzing therefore in business year 2006 continued to implement its strategy of consistent globalization of its market presence and expansion into Asia, the market of the future.

The construction of the viscose fiber plant at Nanjing (China) jointly with the listed Nanjing Chemical Fibre Co., Ltd. (NCFC) continued on schedule. The plant with an initial capacity of 60,000 tons will enter the start-up phase within the first six months of 2007. Capital expenditure (without start-up cost) will be as scheduled at RMB 650 mill. (equivalent to EUR 63 mill. as at 31/12/2006). Lenzing (Nanjing) Fibers Co., Ltd. will produce fibers for both the textile and the nonwovens sector. If market conditions permit, further expansion of capacity is possible. First long-term supply contracts for fibers from Nanjing have already been agreed with one important European customer who intends to set up a spinning mill in China. This market is to be the main target.

The development of the Chinese market was further intensified by the Lenzing trading company for textile and nonwoven fibers in Shanghai. China today is one of the most important sales markets for high-value Lenzing specialty fibers. Moreover, corresponding efforts in 2006 were made in new markets for specialties, such as Indonesia, India, Syria and Brazil.

The opening of a branch office in India in 2006 marked the successful entry into this important and promising market.

Business Unit Textile Fibers

Business Unit Textile Fibers looks back on its best business year in corporate history. Shipments to textile processing customers reached a new high with over 320,000 tons of fibers.

Several reasons were responsible for this very good result, apart from the generally good condition of the textile economy:

- The development of new applications for Lenzing fibers was advanced and very well accepted by the market. The product and application portfolio in 2006 was significantly expanded.
- Increased use of Lenzing fibers for sportswear by leading global brand producers and for high-value home textiles, but also for flame-retardant protective wear are some of the examples.
- The issue "naturalness of textile raw materials", and therefore Lenzing fibers, continued to gain market relevance.
- Project "Fit for the Future" produced first cost savings in 2006.

The successful positioning of Lenzing fibers as high-value natural fibers optimized for specific applications resulted in further improvement of the product mix towards specialties with high margins. Lenzing thereby managed to gain further market share for Lenzing Modal® and MicroModal® fibers, despite growing competition. This position in the top quality segment is also reflected by more than 100 million hang tags marketed to end customers.
New areas of application for TENCEL® fibers, such as in technical textiles, round off the picture.

All in all, the activities of Business Unit Textile Fibers in 2006 were put on a broader foundation by developing new customer groups and new application segments.

Outlook Business Unit Textile Fibers

The demand for Lenzing textile fibers at the start of business year 2007 developed very well. The Asian textile economy has so far shown no signs of weakening. There has been no essential change in the price levels of cotton and polyester fibers. The weak US dollar, however, puts significant pressure on the European customers of Business Unit Textile Fibers, compared to their Asian competitors. Moreover, the competitive pressure in specialty fibers exerted by Asian suppliers is growing. The currently very high sales volume can be expected to lead to a certain amount of saturation in the textile chain during the second half of 2007.

The unchanged strategy of Lenzing Business Unit Textile Fibers is to focus on specialty fibers with high margins and on special applications. It can be expected to produce a good business development in 2007 as well.

Business Unit Nonwoven Fibers

Lenzing Business Unit Nonwoven Fibers continued to develop well, in terms of demand for Lenzing products and in terms of realized sales. The satisfactory development was caused by improved market conditions on one hand, and by new strategic measures, such as broadening the geographical base and sales activities with specific customer focus, on the other hand. The significant increase in distribution as compared to 2005 and several price increases jointly contributed to a corresponding rise in sales.

While demand in Europe was carried by sector spunlace (wipes), North America showed broad growth across all segments. The development of demand in Asia was positive, although with only slow growth in China.

In business year 2006 Lenzing Nonwovens further expanded its global market position. Its flexibility as supplier of high-quality products was significantly improved as a result of increased delivery to Lenzing key customers from different production sites of the Group. This resulted in increased security of supply for customers and even better utilization of production capacity for Lenzing.

The implementation of cost saving measures as part of the program “Fit for the Future” significantly contributed to the increased earning power of Business Unit Nonwoven Fibers helping to offset the negative impact of increased raw material costs.
Moreover, the restructuring of the Group‘s innovation activities contributed to a greater market focus, as did the newly established group for business development and the reinforced sales team.

The adverse development of costs in 2006, in particular for pulp, was compensated by internal measures and good market development.

Outlook Business Unit Nonwoven Fibers

The first weeks of business year 2007 saw the continuation of strong demand for Lenzing nonwoven fibers. This trend is expected to continue throughout the first half of 2007, followed by slight weakening in the second half that should lead to a more balanced supply and demand situation.

In Europe, Lenzing Nonwoven Fibers will expand its sound position as market leader by further optimizing its product mix and its customer base. Moreover, the newly established group for business development and reorganized research and development can be expected to provide stimulating input.

Lenzing Nonwoven Fibers will further consolidate its position as the market leader in North America, as Lenzing is now the only US-based producer of cellulose nonwoven fibers.

In 2007 Lenzing will further expand its global position by the introduction of non-fibrillating TENCEL® fibers which will open new areas of application for TENCEL®. The optimization of quality and global implementation of exacting Lenzing quality standards will accelerate. Business Unit Nonwoven Fibers can therefore expect the continued expansion of sales and results for 2007.

Business Unit Pulp

Business Unit Pulp is responsible for the key task of supplying the Group‘s fiber production with pulp. The Business Unit also manages the sales of by-products from pulp and fiber production, such as acetic acid and furfural.

The Lenzing site

Pulp production at the Lenzing site was raised by another 9,000 tons to the new record level of 225,000 tons, despite a difficult supply situation for beech wood in 2006. This increase was required to secure raised fiber production and was achieved by further debottlenecking of production. Raised costs due to increased wood prices were largely headed off by the considerable expansion of production capacity for resources such as xylose, furfural and acetic acid. These chemicals are extracted from raw material wood as by-products on the basis of proprietary processes. The development of the market for these products in business year 2006 was satisfactory. Furfural, acetic acid and by-product sodium sulfate are distributed Europe-wide by a sales division managed by the Business Unit.

Lenzing Group pulp supply

2006 saw a dramatic increase in the demand for dissolving pulp. This led to a significant price increase of 10%. Lenzing, however, managed to secure supply for the non-integrated sites of the Group on the basis of long-term contracts with established suppliers.

Outlook Business Unit Pulp

The continued organic growth of the Group will be a considerable challenge for the Business Unit to provide pulp in a difficult market environment to the Group‘s companies. The supply situation for wood is not expected to ease. The increased radius of wood suppliers will generate higher transportation costs.

The 2007 pulp supply for non-integrated sites has been secured by concluded long-term agreements.

The expansion of pulp production by consistent debottlenecking at the Lenzing site will continue in 2007, in order to ensure the full integration of the site. Besides, production capacity for the extraction of chemicals from the by-products of pulp production will be consistently expanded over the coming months and years, which will further improve results from the middle of 2007.

Business Unit Energy

The production of pulp and cellulose fibers are energy-intensive processes. The importance of Business Unit Energy in providing steam, electricity, process cooling, water and other media for production processes, is correspondingly great.

The energy situation in 2006 was characterized by price increases for electricity, oil, natural gas and biogenic fuels. The increased production of pulp and fibers at the Lenzing site led to a growth of fuel consumption by about 4%. Energy supply by RVL Reststoffverwertung Lenzing was increased by 2% over 2005. The contribution to Lenzing AG's ecologically optimized energy supply was consistently high throughout the year.

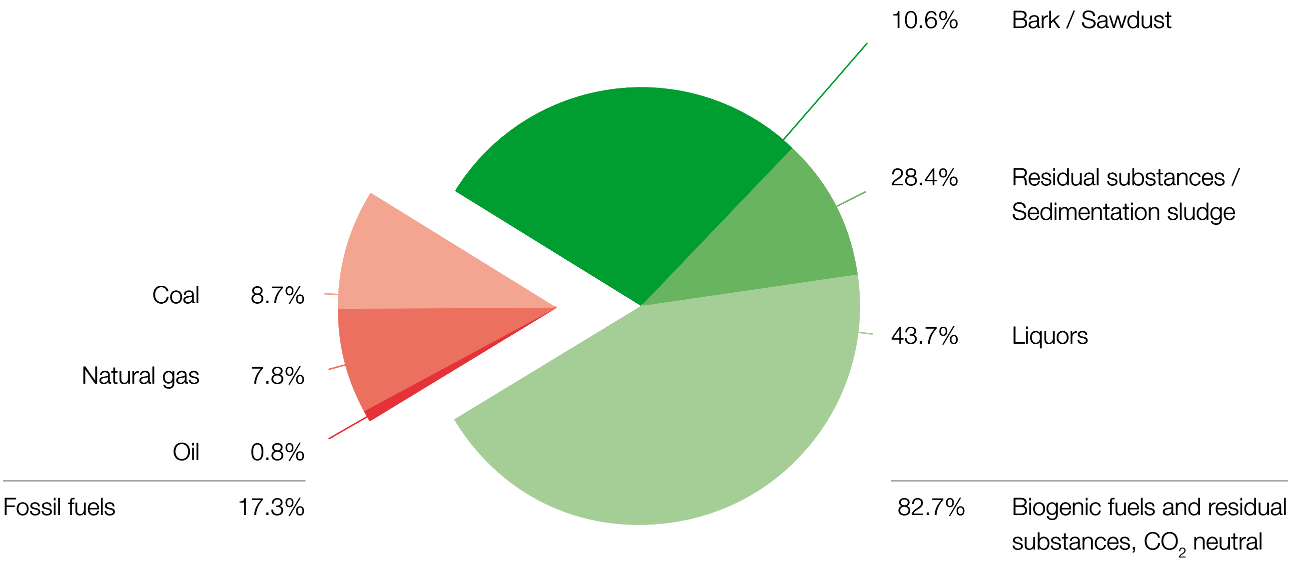
Due to the shortage of biogenic fuels and the increase in production capacity at the Lenzing site, more coal had to be used. The thermal utilization of waste and the use of alternative fuel was increased as well. Energy self-sufficiency of the Lenzing site for electrical power at 93% remained on a high level. The reconditioned hydroelectric power plants on the Ager river contributed by fully providing the expected increase in performance.

All sites had to cope with gas price increases which were partly considerable. As part of energy cost optimization measures, the Group largely centralized natural gas purchasing from the middle of 2006. For the first time risks concerning the price development of natural gas were partly hedged by corresponding financial instruments.

The Indonesian subsidiary PT. South Pacific Viscose replaced the cost-intensive production of electricity by diesel-powered generators with production by a new additional steam turbine.

Fuel mix at Lenzing AG (incl. RVL)

Total annual fuel input 2006: 12,506,727 GJ



Outlook Business Unit Energy

The construction of a new thick liquor combustion unit at the Lenzing site continues on schedule. The new facility will start operation in 2007, securing the continuous thermal utilization of thick liquor from pulp production in the long term. The energy supply of the other sites, in particular of the new site at Nanjing, is well secured from today's perspective, even taking into account the difficult general situation in the energy market that is expected to continue. Despite lower crude oil prices due to general weather conditions in the fourth quarter of 2006, a sustained relaxation of the energy market situation is not to be expected in the medium term. Therefore all possibilities for saving energy will be used to secure the energy supply to the Group in terms of optimized consumption and in terms of optimized costs. The Lenzing site at the beginning of 2007 has started a comprehensive energy saving project with all of its staff participating.

Segment Engineering

Lenzing's Business Unit Engineering provides products and services in the fields of fiber and pulp technology, mechanical construction and automation, as well as mechatronics. Lenzing Technik markets its products worldwide and looks back on another very successful business year. In particular the conditions in the fiber and pulp industry continued to be favorable and therefore the high readiness to invest remained unbroken, within the Lenzing Group as well as with external customers. Total sales in 2006 grew to EUR 103.6 mill. (2005: EUR 88.6 mill.), with sales of EUR 59.0 mill. (2005: EUR 41.2 mill.) to customers outside the Lenzing Group. Positive project completions and the successful development of newly established business sectors resulted in an EBIT of EUR 10.1 mill (2005: EUR 9.4 mill.) and another highly gratifying annual result for this segment. Lenzing Technik in 2006 had an average staff of 500.

Fiber and Pulp Technology

Fiber and Pulp Technology consists of the divisions viscose technology, pulp technology and separation technology.

The economic situation of the industry has been favorable for several years. This resulted in a corresponding readiness to invest in production facilities for cellulose fibers and leading to an attractive volume of order bookings and good results. The business development of division separation technology was gratifying as well. The good results of division viscose technology were mainly due to sales generated by capacity expansion within the Lenzing Group, but also to external orders from Europe and Asia.

The high level of expertise in the production of dissolving pulp and pulp for the paper industry again led to a high volume of order bookings from Southeastern Europe and Russia.

Mechanical Construction and Automation

Lenzing's division mechanical construction is a supplier in traditional production system construction and successfully markets its comprehensive expertise resulting from decades of experience as a contract manufacturer.

The division is an established partner for maintenance projects of clients in diverse industries. High-quality maintenance work, such as the revision of complete production facilities or of individual components like pumps, gearboxes, fans, controls, instruments, and blowers forms the core of the services offered.

Division automation specializes in electrical systems, measuring and control technology, and automation of production facilities. Sales and results grew in 2006.

The policy decision to set up a new product group engaging in high-tech sheet metal processing was made in 2006 as well. The ground-breaking ceremony for the construction of the new plant at Lenzing took place already in the December of the same year. Operation will start in the middle of 2007 with a staff of 60. Lenzing's sheet metal technology will use laser cutting, punching, bending and robot-welding applications to provide customers from a variety of industries, such as plant engineering, automotive and medical, with high-quality sheet metal products.

Mechatronics

Mechatronics focuses on the manufacture of high level mechanical and electronic components. It covers the divisions electronics, robotics and marking systems.

Apart from the production of electronic and electromechanical devices and component groups to customer specifications, division electronics offers fully automated SMT production including optional manual assembly of electronic component groups through its joint venture partner LENO Electronics.

Although division robotics is limited to the Austrian market it increased its sales level above that of 2005.

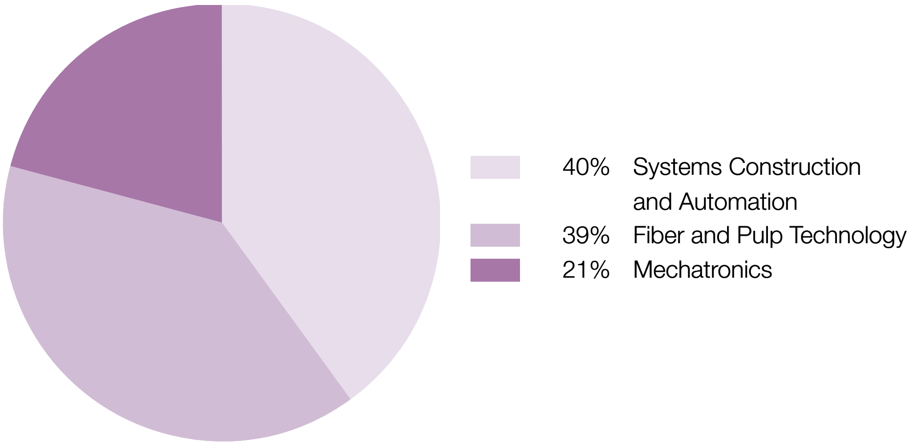
Division marking systems has acquired a good global market position over recent years and almost doubled sales. Increased product innovation expediture, however, burdened the result in 2006. Order bookings continue to develop satisfactorily.

Outlook Segment Engineering

Year 2006 saw the start of a project that will optimize the cost structure and business organization, and will revise the strategic orientation of Lenzing Technik as well as that of its divisions. Innovation potential is being identified, with the intention to develop new business fields. First results from this project can be expected in 2007.

High order bookings across all areas and gratifying high demand across almost all product groups point to a good development of sales and results in the new business year. The share of external customers in sales is scheduled to increase. Consistent product development and expansion of the product range will secure the successful development in 2007 as in previous years.

Segment Engineering – Sales distribution



Segment Plastics

Lenzing's strategy in Business Unit Plastics is to supply high-quality niche products based on a variety of polymers. Lenzing Plastics has successfully asserted itself in the market as a leading Austrian plastics processing enterprise, focusing on thermoplastics and polytetrafluoroethylene (PTFE) for specific applications.

The market environment for Business Unit Plastics in business year 2006 was basically positive. The economic upturn in Germany and Austria, strong demand for insulating materials (caused by rising energy prices) and the mild winter of 2006/2007 in Central Europe favored in particular sales of laminates for roofs and semi-finished materials for the insulation industry. Asian competitors, however, continued to put pressure on prices for PTFE fibers and filaments for hot gas filtration. The price of polyolefine raw materials reached a record high, resulting in additional costs of about EUR 5 mill. over 2005.

The 2006 EBIT of segment Plastics at EUR 8.9 mill. was on par with the excellent result of 2005 (also EUR 8.9 mill.) Sales grew significantly by 14.6% from EUR 81.6 mill. (2005) to EUR 93.5 mill. due to increased volumes and price increases for raw materials that were partly passed on to customers.

In 2006, Business Unit Plastics clearly laid the tracks for its further expansion. A monofil extrusion line for artificial turf yarns of the latest generation took up production and new yarn types were successfully developed.

Specific investments enabled the production start-up of multi-layer packaging film with superior surface properties.

The cable film business expanded with aluminium laminates for data cable shielding. New yarn grades for compression packings were developed and marketed successfully. Sales of PTFE yarns for dirt-repellent architectural membrane structures and shading systems started with great success.

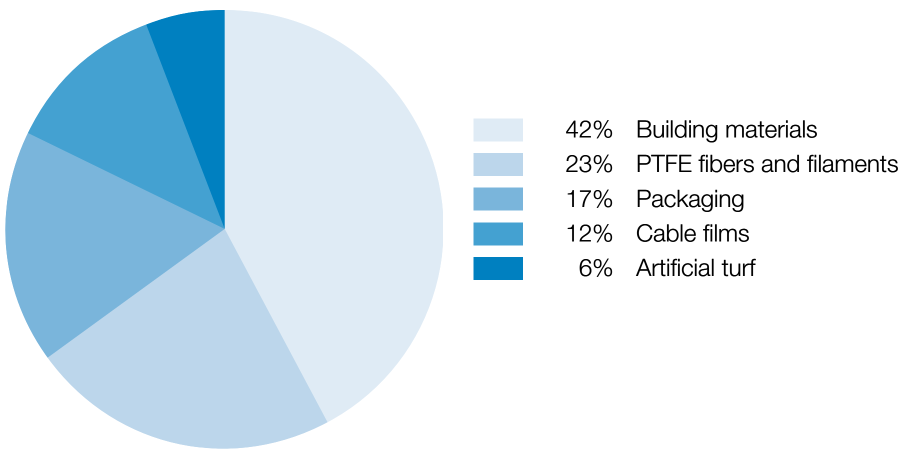
There was good progress in the preparation of the takeover of German plastics producer Hahl Group GmbH. The agreements concerning this acquisition were signed in January 2007 and the closing is expected for the end of the first quarter. Hahl Group GmbH, located at Munderkingen / Germany, is a major European producer of cut plastic filaments for the production of synthetic bristles, brushes and fabrics. These semi-finished products are used for industrial brushes for tool making, abrasive filaments for the surface treatment of steel, stone and flooring, as well as tooth brushes and industrial filtration purposes. The company with a staff of 240 realized sales of EUR 35 mill. in 2006. Its main markets are Europe and Asia, with North America to be targeted in the future.

The acquisition of Hahl Group GmbH provides Lenzing Plastics with an excellent basis for entering into new and promising markets and applications. The acquisition of Hahl Group has been the biggest step in the growth of Business Unit Plastics in recent years. Hahl, as the second operative unit of Business Unit Plastics, will continue its activities with an independent market identity.

Outlook Segment Plastics

Expansion will continue in 2007. The focus will be on the extension of the artificial turf business and PTFE yarns for medical applications. The strategic orientation as a supplier of niche products is expected to produce good results, despite continued volatility of raw material prices. Considerable increase in sales is expected from organic growth and the acquisition of Hahl.

Segment Plastics – Sales distribution



Segment Paper

Lenzing's strategy of niche orientation in its non-fiber business sectors is consistently implemented at Lenzing Paper as well. Lenzing Paper specializes in high-quality niche products on the basis of wood-free uncoated paper, such as envelope paper, high-bright recycled paper and poster paper.

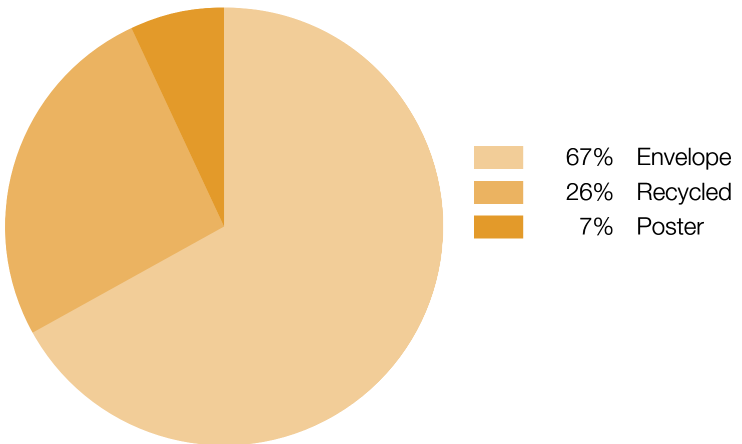
Business year 2006 was another difficult year for the European paper industry. It tried to improve its results by cost optimization programs and restructuring measures including capacity adjustment. In the course of the year the market showed first signs of a trend reversal. Hesitant recovery was carried by improved demand resulting from the recovering German economy and by better capacity utilization in the European paper processing industry. The third quarter showed the beginning of a clear increase of demand in market segment envelope paper and a corresponding trend reversal in price development.

Lenzing Paper in 2006 continued to consistently implement measures for the optimization of production and work flows by allocating appropriate investment. This resulted in a production record for 2006 of 78,000 tons which were produced at full capacity. Shipping by volume peaked to a new all-time high as well. Annual sales reached EUR 57.9 mill., (2005: EUR 53.1 mill.), the annual result of minus EUR 0.6 mill. (2005: EUR 1.2 mill.) was still unsatisfactory, but significantly less so than the year before. Improved results in production were contrasted by considerable cost increase for raw materials, energy and transport.

Outlook Segment Paper

A perceptible trend reversal in 2007 can be expected, due to good general economic conditions. Lenzing Paper expects the good demand situation to continue. It should be supported in 2007 by the continuing market adjustment for uncoated paper. To be considered is the adverse development of prices for pulp, secondary fiber materials, energy and raw and auxiliary materials. Further price increases will therefore be unavoidable. The success of Lenzing Paper will very much depend on whether the market will accept these.

Segment Paper – Sales distribution



Risk Report

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

Function "Risk Management" was created in 2005. Active cooperation in the early detection of strategic, operative and latent risks and the implementation of risk minimization measures in the affected departments are key tasks.

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

General risks

The global Lenzing Group is exposed to a multitude of general macroeconomic risks. The development of product price and product quantity for Business Units Textile Fibers and Plastics, and to a lesser degree for Nonwoven Fibers, is cyclical. It depends on global and regional economic conditions. The prominent role of the dynamic development in Asia and in particular China and India has recently been growing.

The economic cycles of industry sectors and regions are not always synchronized. Lenzing therefore strives to minimize the attached risks by increasing its international market presence and its product diversity.

Emergency management

Contingency plans and a group wide emergency communication procedure were introduced in 2005. The focus in 2006 was on technical improvements of production facilities.

Special risks

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

Purchasing risks

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

Environmental risks

The production of cellulose fibers is a complex series of physical and chemical processes which entail environmental risks. These are minimized to the greatest possible extent by highly efficient, state-of-the-art environmental protection facilities. Dedicated, proactive and sustainable management of the environment, closed production cycles and continuous monitoring of emissions are some of the strategies to contain these risks.

Sales risks

Lenzing is a niche player in all its fields of activity. Sales loss caused by major clients constitutes a risk which Lenzing counters by global positioning and the continuous broadening of its client base, its sales segments and its sales markets. The majority of receivables are covered by credit insurance.

Exchange rate risks

There is a risk of adverse exchange rate fluctuations of the euro versus the US dollar and the British pound. This risk is largely contained by prospective hedging of the expected net exposure on an annual basis. Please refer to notes 33 and 34 for details.

Competitive risks

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

Financial instruments

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

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

Allowances are made for identifiable risk of loss related to primary financial instruments, such as loans, securities, receivables and cash by way of value adjustments. The balance sheet book values of these financial instruments represent the maximum risk entailed. In addition, Lenzing AG accepted liability for associates (please refer to note 30). This liability is of a subsidiary nature as it becomes effective only if these companies fail to meet their payment obligations. The risk is considered to be small.

The risk of changes in the market value of primary financial instruments and their derivatives is rated small. Exchange rate risks are covered by foreign currency forward contracts and options. No major fluctuations until maturity are to be expected for short-term financial instruments either. Long-term liabilities are essentially linked to variable interest rates. Therefore significant changes in value are not to be expected.

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

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

Financial Situation and Liquidity

Lenzing AG meets its payment obligations timely. Current payments are covered by cash flow from operations. Liquidity and equity of the company are sound.

As at 31 December 2006 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 business period 2007.

Research and Development

The Lenzing Group's technological leadership is based on the continuous further development of viscose, lyocell and pulp technology. It provides the Group with a secure lead of several years over its competitors.

The innovation center of the Lenzing Group is located at Lenzing. It is the global leader in cellulose chemistry and cellulose fibers. Moreover, Lenzing cooperates with well-known international research institutes and academic institutions in the fields of wood and cellulose chemistry. Several pilot plants are in operation at the Lenzing site for process research and ongoing development of specific fiber types. Smaller development projects are managed at other production sites as well.

Expenses for research and development (calculated by the Frascati method) in business year 2006 came to EUR 16.1 mill. (2005: EUR 16.5 mill.).

The emphasis in 2006 was on the improvement and optimization of pulp production and of the viscose process. Nanofiltration was successfully applied to viscose production, a breakthrough in the efficient separation of hemicellulose from press lye. Another research goal is the optimization of recovery of chemicals from the by-products of pulp production.

The research focus in improving the viscose process was on reducing input of chemicals, decreasing emission levels and on developing new fiber types, fiber blends and textile fiber applications. New TENCEL® fiber types were successfully developed for application in technical textiles, as well as new types for the nonwovens industry.

As part of reorganization, research and development activities are now directly assigned to the individual business units to provide more closeness to the market and to generate greater efficiency. All future research and development activity will therefore be conducted in very close communication with business unit management to ensure clear market orientation. A new strategy board for innovation that includes operative managers of the business units and the chairman of the management board will ensure even more focus on activities and an even clearer perspective on results. This reorganization clearly gives the Lenzing Group more impact in research and development.

Environment and Sustainability

Sustainability in the Lenzing Group

The Lenzing Group is a company that acts globally and has a long-term economic perspective. The Group's goal is sustainable development at all its sites – in economic, in ecological and in social terms. Lenzing is the world's biggest producer of cellulose fibers with six production sites as well as seven offices and trading companies. An integral part of the Group's success therefore is a good working climate in which a modern corporate culture can prosper.

An essential element of sustainability in the Lenzing Group is the use of renewable raw material wood. Continuous innovation and process optimization in terms of environmental engineering are an important part of our efforts towards an environmentally sound production. To this end the Lenzing Group sets important standards that to a large extent have already been implemented in various parts of the company or that will be gradually introduced over the next few years. The impact of our products and processes on the environment is continuously monitored and assessed by internal and external measurements. Decisions concerning the improvement of environmental sustainability are made and implemented on the basis of these studies. New materials are first tested for their ecological impact and only approved for production after positive evaluation.

Lenzing's management of quality and environment are ISO certified (ISO 9001 and ISO 14001), its safety standards by OHSAS 18001.

Human Resources is committed to a corporate management system that puts people at the center and it believes that our staff members and their personal commitment are the key to our innovation drive. We offer our staff members a clear corporate structure, a multicultural work environment that fosters mutual understanding, continuous basic and advanced training, and the opportunity for self-realization in an international and successful group.

To achieve the set sustainability goals, the Lenzing Group implemented a variety of measures in 2006, and more have been targeted and scheduled for the next few years.

Lenzing Group certification status

	ISO 9001	ISO 14001	OHSAS 18001
Lenzing	✓	✓	✓
Heiligenkreuz	✓	2007	2007
Grimsby	✓	✓	✓
Mobile	✓	planned	planned
SPV	✓	✓	✓
Nanjing	planned	planned	planned

Environmental protection

Environmental protection at the Lenzing site in business year 2006 was characterized by the significant production increase in pulp and fiber at unchanged emission levels. The above-average production increase is an ongoing challenge: Lenzing fiber production in the last six years alone rose by 48% and pulp production increased by 39%. This challenge was mastered by continuously increasing the performance of existing environmental protection facilities. Biological anaerobic sulfate recovery was introduced to viscose production at Lenzing in 2004. This globally unique process, together with the increased precipitation of gypsum contained the rising sulfate load of process water discharged into river Ager without jeopardizing the agreed limits.

In addition, the construction of a facility for the recovery of zinc from waste water treatment sludge was started in 2006. Zinc which is contained in the precipitated sludge from anaerobic purification is extracted as zinc sulfate which is then recycled to the spinning bath. Apart from saving resources, the load on the environment is reduced by distinctly lower zinc levels in the ashes of combusted sludge.

The activities of Prüfstelle Umweltanalytik Lenzing (UAL), Lenzing‘s environmental testing laboratory, were expanded in 2006, offering a variety of analytical services in sectors water, discharge water and waste products to external customers.
The management of internal environmental issues benefits from the derived gains in environmental competence.

Water permits re-issued

Water permits concerning waste water treatment facilities and the discharge of cooling and process water into river Ager had been issued for a period of ten years and had expired on 31 December 2005. Wasserreinhaltungsverband Lenzing – Lenzing AG (WRHV), the Lenzing association for the purification of waste water, and the plants at the site applied in due time for the re-issue of these permits at the responsible agency on 30 June 2005.

The applications were discussed during six days of negotiation in the summer of 2006 which confirmed that the facilities of Lenzing AG and WRHV fully comply with state-of-the-art standards. After the positive conclusion of negotiations, the waste water permits were reissued by the water rights agency of the state government of Upper Austria on 6 September 2006. WRHV was granted the permission to operate facilities and discharge purified process water into the Ager until 31 December 2015. The level of permitted thermal emission by cooling water into the Ager has been fixed until 30 June 2010.

Re-certification of the environmental management system according to ISO 14001

The environmental management system of Lenzing AG successfully passed the re-certification audit according to ISO 14001. Some of the points highlighted were the further development of IT-based management systems, the high level of competence of staff, contact persons and agents, and the professional and efficient execution of the audit. Successful re-certifications were concluded at Grimsby / UK and at PT. South Pacific Viscose / Indonesia as well.

R.I.O. award for Lenzing Fibers GmbH

Lenzing Fibers GmbH was recognized by the R.I.O. jury for its innovative performance in environmental protection in 2006. The R.I.O. award is offered in competition in Germany, Austria and Switzerland to companies which excel in sound resource management and the implementation of innovations in environmental technology along with the optimization of output.

Human Resources

Lenzing's staff members and teams provide decisive contributions to the Group's business success. To safeguard and improve this aspect, Lenzing's management continuously promotes measures that assist and train our staff members and improve our working atmosphere.

A shared understanding and commitment about what we want to achieve and about how we want to reach our goals is as important as staff members who are given the opportunity to prove themselves at what they are best at and who receive regular feedback. This kind of active performance management promotes the development of the Group and improves the capability and productivity of its people.

Lenzing is an international company. It wants to develop its staff relations through respect for and appreciation of the diverse cultural backgrounds of its staff members as the basis for a productive working climate and constructive cooperation. These values were defined for the whole Group in 2006 in a process lasting several months. They reflect the development of the Group over the past years and as a result form the new Lenzing Principles, a future-oriented guideline that will serve as a binding code of conduct. The Lenzing Principles will be communicated to all Lenzing staff members by a variety of activities in order to secure the further improvement of our working climate and to support our staff members in their daily work environment that confronts them with ever greater challenges.

As at 31 December 2006, the Lenzing Group employed 5,044 people worldwide (2005: 4,860).

At Lenzing, the Group's biggest site, Lenzing AG and its subsidiaries i.e. Lenzing Technik and Lenzing Plastics, had a staff of 3,142 at the end of 2006, including contract workers (unchanged from 2005). 141 (2005: 142) of these were trainees. Lenzing is serious about its commitment to develop these into skilled workers. The quality of Lenzing's training program was commended by the Upper Austrian Chamber of Commerce at a trainee competition of 140 Upper Austrian companies with a total of 750 participants, Lenzing Plastics emerged as the most successful plastics producer.

The training center at the Lenzing site successfully continued its range of programs for internal and external staff members.

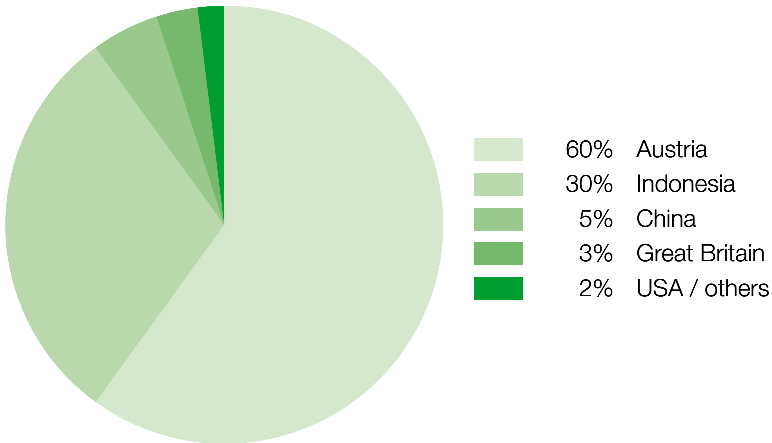
The number of staff members at the Nanjing / China site was increased to over 200 as part of preparations for the start of production in 2007. The number was again raised to 500 by the end of the first quarter of 2007. Preparatory training of the staff members at Nanjing for the start of production is on schedule.

During 2006 a new group-wide education program was initiated with a meeting in Indonesia that was attended by staff members from all the Group's locations in Asia as well as from Europe.

The continued expansion of the Group, particularly in Asia, has led to the introduction of a global recruitment system that enables staff members to apply for job opportunities anywhere in the Group.

Staff by country

Lenzing Group staff at 31 December 2006: 5,044



Safety and health

Safety

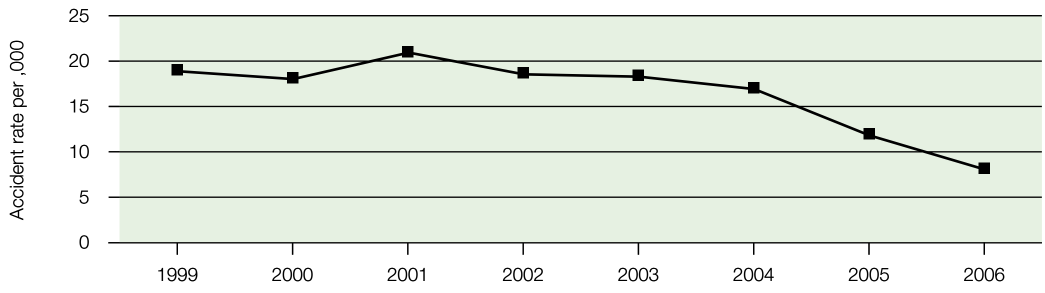
The number of injuries reached an all-time low in 2006. It, moreover, was significantly below the industry average.

Program "Top in Safety" has been running since 2004, the motto of 2006 was "Learning from Experience". Special attention was given to near-accidents and their reporting, with the intention to improve preventive measures.

Safety management according to OHSAS 18001 or to equivalent standards was successfully concluded at PT. South Pacific Viscose and at all other sites and business units.

The safety of production equipment was further improved across the Group. Additional safety features and more state-of-the-art fire protection equipment were installed to further increase staff safety.

Development of injury rates



Health

Health groups were started at the Lenzing site that are based on the results of the Human Work Index© 2006. A life crisis management system was set up for staff members who are going through difficult periods in their lives and health checks for those above 40 were introduced. The measures that were introduced over the past years resulted in a continuous decline of inactive periods due to sick leave.

Corporate Communications

A global company with a strong commitment to local responsibility needs a modern information policy for public as well as intra-company relations. Continuous and transparent communication activity for all interest groups, as well as openness to staff and others are firmly rooted in Lenzing's policy.

Corporate Communications is responsible for communication with investors and the general public.

Investor relations

The Lenzing share is quoted at the Standard Market Continuous of the Vienna stock exchange and at over-the-counter markets of some regional German stock exchanges. In 2006 the official quotation at the Frankfurt and Munich stock exchanges was discontinued for reasons of economy, as the trading systems of Deutsche Börse AG and the Viennese stock exchange are identical, and because the trade volume of Lenzing shares at German stock exchanges had been very small.

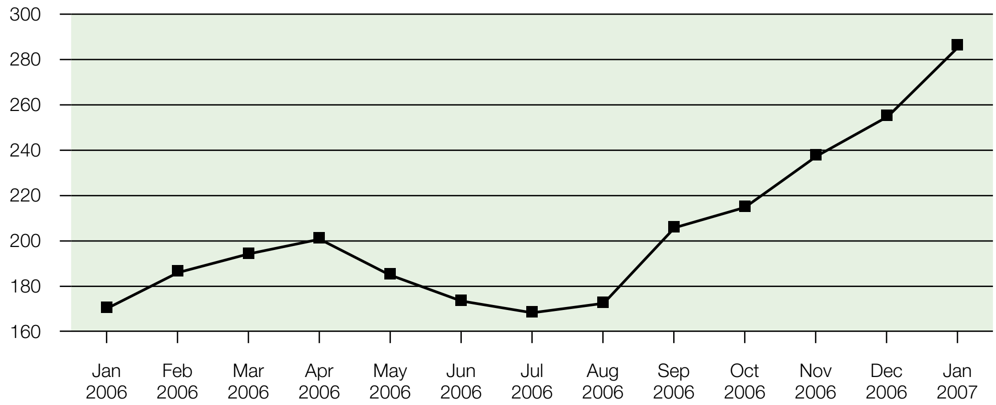
The common stock of Lenzing AG is EUR 26,717,250.00, divided into 3,675,000 individual share certificates. B & C Holding GmbH, the majority shareholder with a share of more than 75% is an Austrian financial holding company with investments in a variety of sectors. B & C Holding sees itself as an Austrian core shareholder with long-term investment interests.

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

The Lenzing share price continued its rise in 2006. Improved business perspectives contributed to this development. Rumors regarding the sale of an equity stake by B & C Holding were rejected by the chairman of the supervisory board of Lenzing AG and managing director of B & C Holding, Karl Schmutzer.

Sector investor relations provided comprehensive information to Lenzing's shareholders by regular press releases, detailed Letters to the Shareholders, as well as by individual discussions. The management board of Lenzing AG held numerous talks with institutional investors in the course of the reporting year. Several guided tours of production facilities for investors complemented these activities.

Lenzing share price



Public relations

Corporate Communications ensures efficient and competent communication with the general public and with Lenzing's staff. As in previous years, press releases and press meetings provided the general public with up-to-date information on business developments, current events and market trends.

Apart from regular press relations, Corporate Communications supplies staff and other stakeholders with a steady flow of information in the form of in-house magazines, newsletters, appearances at trade fairs and a regular TV feature on local television in the Lenzing region.

Innovations in staff communication introduced in 2005 were continued in 2006. The fourth edition of semi-annual international quality magazine "Lenzing Inside" was published, providing information on latest developments, special achievements, new production sites and on the general market environment. This magazine is distributed to Lenzing customers world-wide.

TV magazine Lenzing Aktuell has been broadcast by local TV station Bezirks TV on a fortnightly basis for now eight years. It features news, current events, general matters of interest and background information on the Lenzing Group. It was recognized in 2006 as Europe's best in-house audiovisual medium by FEIEA (Federation of European Industrial Editors Association).

Numerous appearances at fairs provided an interested international audience with the opportunity to get to know the Lenzing Group, for example at the prestigious Texworld where Lenzing presented its expertise and its innovative products to thousands of visitors.

Outlook Lenzing Group

Expansion to continue

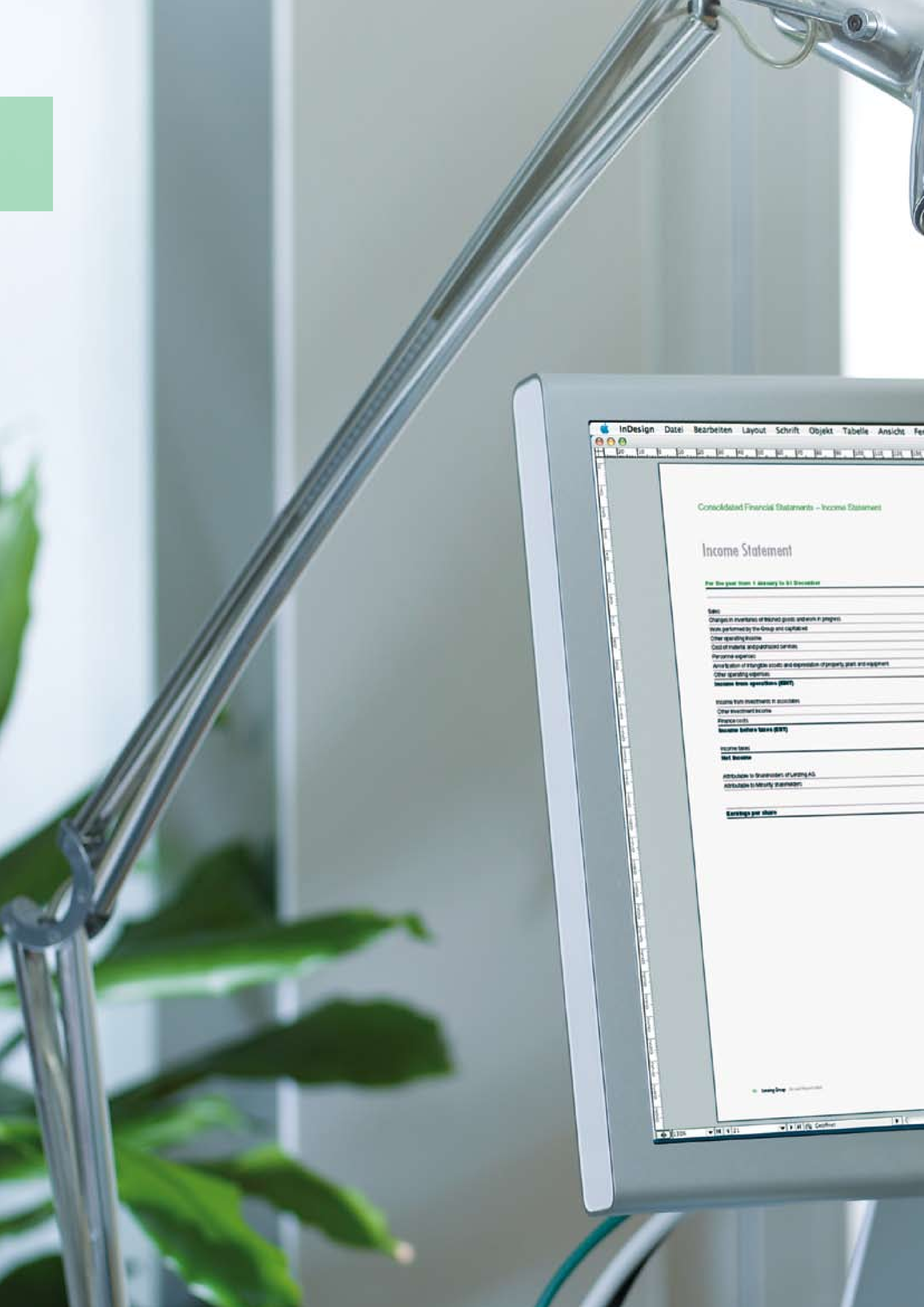
The global economic environment in the first weeks of 2007 has been gratifying. In particular the economic development of the industry in Asia showed no signs of slowing down. A further decline of the US dollar against the euro, as in these first weeks, could however further weaken the competitiveness of the European textile industry and have negative impact on the European fiber industry. There are also signs that the textile pipeline in Asia is beginning to fill up, with potential negative consequences for global fiber sales.

The demand for Lenzing fibers in the first quarter of 2007 continued to be good. Current order bookings point to a continuation of the good business development in the second quarter.

Lenzing in 2007 will continue to expand its production capacity. The Lenzing site will increase capacity both in terms of quantity and quality by further modernization and flexibility, thereby enabling the expansion of specialty fiber production. Moreover, the new viscose production plant at Nanjing / China will start operation at the end of the first quarter.

The good strategic position of Business Units Textile Fibers and Nonwoven Fibers provides confidence for the development of the year. The expansion of our Business Unit Plastics will continue to gain momentum. Business Unit Engineering, too, will provide additional impulse with its entry into the business field of sheet metal processing from the middle of the year on. All in all, another gratifying business year can therefore be expected for 2007.

The Management Board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Consolidated Financial Statements – Income Statement
Income Statement

CONSOLIDATED FINANCIAL STATEMENTS 2006

Income Statement

For the year from 1 January to 31 December		2006	2005
	Note	EUR '000	EUR '000
Sales	(5)	1,100,533	942,620
Changes in inventories of finished goods and work in progress	(6)	(3,019)	679
Work performed by the Group and capitalized	(7)	27,877	29,250
Other operating income	(8)	17,660	18,195
Cost of material and purchased services		(633,714)	(522,560)
Personnel expenses	(9)	(208,676)	(206,916)
Amortization of intangible assets and depreciation of property, plant and equipment	(10)	(67,150)	(64,123)
Other operating expenses	(11)	(126,380)	(115,337)
Income from operations (EBIT)	(12)	**107,131**	**81,808**
Income from investments in associates	(13)	278	631
Other investment income	(14)	696	5,827
Finance costs		(9,509)	(8,970)
Income before taxes (EBT)		**98,596**	**79,296**
Income taxes	(15)	(10,233)	(18,627)
Net income		**88,363**	**60,669**
Attributable to Shareholders of Lenzing AG		83,889	56,875
Attributable to Minority shareholders	(25)	4,474	3,794
		EUR	EUR
Earnings per share	(16)	**22.83**	**15.48**

Balance Sheet

Assets	Note	31/12/2006 EUR '000	31/12/2005 EUR '000
Intangible assets	(17)	10,919	12,659
Property, plant and equipment	(18)	625,977	596,358
Investments in associates	(19)	9,774	10,646
Other financial assets	(20)	17,796	19,194
Deferred taxes	(28)	1,441	1,033
Other non-current assets	(21)	3,053	1,706
Non-current assets		**668,960**	**641,596**
Inventories	(22)	123,906	124,070
Trade receivables	(23)	119,435	110,745
Current taxes		6,742	6,901
Other receivables and assets	(23)	45,686	41,723
Investments	(24)	8,199	8,007
Cash and cash equivalents	(31)	88,807	77,097
Current assets		**392,775**	**368,543**
		1,061,735	**1,010,139**

Equity and Liabilities	Note	31/12/2006 EUR '000	31/12/2005 EUR '000
Common stock		26,717	26,717
Capital reserves		63,600	63,600
Currency translation reserves		(2,686)	1,632
Retained earnings and other reserves		402,657	343,835
Share of shareholders of Lenzing AG		**490,288**	**435,784**
Minority interests		25,728	19,694
Equity	(25)	**516,016**	**455,478**
Government grants	(26)	**33,953**	**37,005**
Bank loans	(27)	173,845	155,858
Other loans	(27)	40,608	44,073
Trade payables		579	4,093
Deferred taxes	(28)	8,094	16,724
Provisions	(29)	82,445	88,912
Other liabilities		3,339	4,495
Non-current liabilities		**308,910**	**314,155**
Bank loans and overdrafts	(27)	17,173	40,496
Other loans	(27)	11,246	13,646
Trade payables		71,879	63,769
Provisions for current income tax		14,520	8,969
Other provisions	(29)	61,126	52,865
Other liabilities		26,912	23,756
Current liabilities		**202,856**	**203,501**
		1,061,735	**1,010,139**

Cash Flow Statement

For the year from 1 January to 31 December		2006	2005
	Note	EUR '000	EUR '000
Gross cash flow	(31)	147,891	120,351
Change in working capital	(31)	(1,742)	3,982
Operating cash flow		**146,149**	**124,333**
- Acquisition of non-current assets	(31)	(105,657)	(84,044)
- Acquisition of investments held as current assets		0	(7,995)
+ Proceeds from the disposal / redemption of non-current assets	(31)	3,192	2,850
Net cash used in investing activities		**(102,465)**	**(89,189)**
+ Payments of other shareholders	(31)	5,974	3,040
- Dividends paid to shareholders	(25)	(31,401)	(32,187)
+ Receipts from financing activities	(31)	58,295	60,572
- Redemption of loans		(63,567)	(51,695)
Net cash used in (-) / provided by (+) financing activities		**(30,699)**	**(20,270)**
Change in cash and cash equivalents		**12,985**	**14,874**
Cash and cash equivalents at beginning of the year		77,097	59,621
Currency translation adjustment relating to cash and cash equivalents		(1,275)	2,602
Cash and cash equivalents at the end of the year	(31)	**88,807**	**77,097**

Statement of Recognized Income and Expense

For the year from 1 January to 31 December		**2006**	**2005**
	Note	EUR '000	EUR '000
Net income		**88,363**	**60,669**
Income and expense recognized directly in equity:			
Gains on revaluation of available-for-sale investments:			
taken directly to equity		(111)	117
transferred to profit or loss on sale		0	0
Gains / (losses) on revaluation of cash flow hedges:			
taken directly to equity		3,126	(2,541)
transferred to profit or loss for the period		2,288	(6,098)
Exchange differences on translation of financial statements presented in foreign currencies		(6,519)	7,924
Actuarial gains / (losses) on defined benefit plans			
taken directly to equity	(29)	(213)	(9,098)
Tax on items taken directly to equity		(1,018)	4,289
Net income / (loss) recognized directly in equity		**(2,447)**	**(5,407)**
Total recognized income and expense for the period		**85,916**	**55,262**
Attributable to			
Shareholders of Lenzing AG		83,855	49,212
Minority shareholders		2,061	6,050
		85,916	**55,262**

NOTES

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

Summary of accounting policies and other explanatory notes to the consolidated financial statements as at 31 December 2006

Note 01: Introduction

Description of business operations

The Lenzing Group ("the Group") consists of the Lenzing Aktiengesellschaft (Lenzing AG) and its subsidiaries. Lenzing AG is a public corporation under Austrian law and has its registered office at Lenzing, Austria.
The majority shareholder of Lenzing AG is B & C Holding GmbH of Vienna, which in turn is a full subsidiary of B & C Privatstiftung. The Group's main activities are fiber and pulp production. Its production sites are located in Austria, the UK, the USA and Indonesia. A plant in China is under construction. In addition, the Group is involved in engineering and in the production of plastics and paper. The global sales network includes trading companies in Shanghai and Hong Kong, a representative office in Beijing, as well as a sales office in New York and also from 2006 a branch office in Coimbatore, India.

Presentation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.
The financial statements are presented in euro (EUR) which is the functional currency of Lenzing AG and most of its subsidiaries. The figures provided in the financial statements and in these notes are rounded to the nearest thousand (EUR '000), unless specified otherwise.

Scope of consolidation

The consolidated financial statements of the Group comprise the parent company, Lenzing AG, and its subsidiaries. They incorporate the financial statements of the individual companies as at 31 December 2006. Note 36 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. Lenzing AG owns only 41.98% of the voting power of PT. South Pacific Viscose; however, this company is fully consolidated because a number of contractual agreements enable Lenzing AG to exercise a controlling influence over the management of the company.

There were no changes in the scope of consolidation during the reporting year which had any appreciable effect on the consolidated financial statements.

Consolidation principles

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

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

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

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

Interests in the net assets of consolidated companies that are not attributable to Lenzing AG are shown separately as part of shareholders’ equity under the heading “Minority Interest”.

Note 02: Accounting and Valuation Methods

Valuation principles

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

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

Foreign currency translation

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

The functional currency is the currency of the country where the respective subsidiary is located, the only exception being PT. South Pacific Viscose. The functional currency of PT. South Pacific Viscose is the US dollar. Assets and liabilities of subsidiaries are translated from functional currency to the reporting currency using the exchange rate prevailing on the balance sheet date.

Sales and other income as well as expenses are translated at the average exchange rates of the month during which the transactions occurred. These exchange rates approximate the actual rates at the date of transaction.

Translation differences resulting from the use of different exchange rates are recognized in equity under a separate heading.

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

Exchange rate gains or losses which result from transactions carried out by Group companies in a currency other than the functional currency are recognized in profit or loss of the reporting period. Monetary assets and liabilities of subsidiaries that are denominated in currencies other than the functional currency are translated at the middle rate, based on the buying and selling rates published by Oberbank AG, Linz, Austria, for 31 December 2006 and 2005, respectively.

Unit	Currency			Middle Rate
1	EUR / USD	US Dollar	31/12/2006	1.3180
1	EUR / USD	US Dollar	31/12/2005	1.1830
1	EUR / GBP	GB Pound	31/12/2006	0.6715
1	EUR / GBP	GB Pound	31/12/2005	0.6810
1	EUR / CNY	Renminbi Yuan	31/12/2006	10.2734
1	EUR / CNY	Renminbi Yuan	31/12/2005	9.5463
1	EUR / HKD	Hong Kong Dollar	31/12/2006	10.2400
1	EUR / HKD	Hong Kong Dollar	31/12/2005	9.1865

Intangible assets

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

	Years
Licenses, trade-marks and similar rights	
purchased	3 to 25
internally generated	5 to 15
Software	4 to 5

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

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

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

Property, plant and equipment

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

	Years
Land-use rights	30 to 50
Residential buildings	25 to 50
Office and factory buildings	15 to 50
Other buildings	20 to 33
Fiber production lines	7 to 15
Boiler stations, transformer stations, turbines	12 to 25
Other machinery and equipment	7 to 20
Vehicles	4 to 8
Office equipment and fixtures	2 to 10
IT hardware	3 to 10

Fiber production lines and other machinery and equipment purchased or constructed up to the year 1997 are written off over 7 years. Items purchased after 1997 are written off consistently over 15 years.

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

Financial assets

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

Securities held as fixed assets serve as partial funding for the pension provision and, until the end of 2005, also for the provision for severance payments as regulated by section 14 of the Austrian Income Tax Act (öEStG). Securities consist primarily of shares in the large-scale investor fund GF 82. This fund was set up as a special fund, as regulated by section 20 of the Austrian Investment Fund Act (InvFG), and has been designated as a fund for severance and pension provisions as detailed in section 14 of the Austrian Income Tax Act. The fund's investments consist mainly of euro bonds (individual shares and funds) and, up to a limit of 20%, of company shares quoted on the MSCI EMU-NR index. The securities are readily available for sale. However, there is no intention to sell these within a year. The securities are therefore stated at market value. Realized gains and losses are recognized in profit or loss under the heading "Other investment income", unrealized gains and losses are recognized directly in equity.

Investments in associates

Investments in associates are accounted for by applying the equity method.

On the basis of its voting rights the Group applies the equity method to investments in four companies. These are EQUI-Fibres Beteiligungsgesellschaft mbH (EQUI) (35%) and its subsidiaries, WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H. (WWE) (25%), LKF Tekstil Boya Sanayi Ve Ticaret A.S. (LKF) (33.34%) and RVL Reststoffverwertung Lenzing GmbH (RVL) (50%). Under this method of accounting, investments in associates are initially recognized at cost. Thereafter the carrying amount of the investment is either increased by the Group's share of the associate's profit or reduced by its share of the associate's loss. Losses are only recognized to the extent that the carrying amount of the investment is written down to zero. In table "Development of fixed assets" on pages 124 and 125 these gains or losses are presented either as write-ups or as depreciation respectively. According to IFRS 3, acquired goodwill is not normally written down except in the event of a reduction in value identified by an impairment test. If the acquisition cost of the investment is less than the investor's share in the fair value of the associate's net assets, the difference is credited to income on acquisition.

Deferred taxes

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

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized according to the degree of completion of the contract activity at the balance sheet date. This is measured by estimating the ratio of work performed to date in relation to the estimated total work to be performed on the construction contract. Project progress is continuously monitored and deviations of any kind from the initial scope and outcome of the project will be 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.

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.

Accounts receivable and current assets

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

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

Investments held as current assets

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

Government grants

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

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) 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 fund.

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. The obligations arising from defined benefit pension plans and severance payment obligations are determined in accordance with IAS 19.

For those staff members with employment contracts under Austrian law with a starting date from 1 January 2003 the Group is required by law to contribute 0.53% of remuneration to an external pension fund.

In accordance with IAS 19.93A actuarial gains and losses are recognized in full in the period in which they occur. They are recognized outside profit or loss in accordance with IAS 19 paragraphs 93B to 93D.

Please refer to note 29 for the recognition and measurement of entitlement of staff members to defined benefit pension plans and their claims to severance payments.

Obligations to pay anniversary bonuses

Collective bargaining agreements stipulate that Lenzing AG and its Austrian 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.

Please refer to note 29 for the recognition and measurement of these obligations.

Borrowing costs

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

Revenue recognition

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

Use of estimates

The preparation of financial statements in accordance with IFRS requires that the Management Board 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.

Earnings per share

In accordance with IAS 33 earnings per share are calculated by dividing net income for the year attributable to ordinary shareholders of the parent company by the average number of ordinary shares outstanding during the period. There are no effects of dilution. Please refer to note 16 for details of the calculation.

Derivative financial instruments

The Group uses foreign currency forward contracts and options to hedge currency risks arising in the course of business operations. Such derivative financial instruments serve to balance the variability of cash flows from future transactions that are carried out in a currency other than the respective functional currency of a company. Hedging transactions are determined annually in advance on the basis of anticipated sales in the respective foreign currency.

In the reporting year, due to the strong rise of energy prices over the last year and high price volatility the Group for the first time employed future contracts traded at the respective commodity exchange to control and cover price-related risks. This approach was based on a detailed analysis of the individual market risks, and in particular the comparison of suitable derivatives, and was then defined in the respective currency on the basis of scheduled gas consumption. Monthly market to market evaluations were made.

The Group applies the rules of hedge accounting as set out in IAS 39. If the conditions for the application of hedge accounting are met the result from changes in the market value of derivative financial instruments is either recognized in profit or loss or directly in equity. This depends on whether the hedging transaction is a fair value hedge or a cash flow hedge. In the case of a fair value hedge the gain or loss from re-measuring the fair value of the hedging transaction and the result of the corresponding underlying transaction are both recognized in profit or loss as part of the income from operations. In the case of changes in the fair value of cash flow hedges, which serve to hedge the risk concerning the variability of cash flows in the functional currency from a planned transaction denominated in a foreign currency, unrealized gains and losses are initially recognized directly in equity and affect profit or loss of the period at the time when the hedged transactions are realized.

Note 03: New Accounting Standards

The Group applies the new and revised standards and interpretations that are relevant to the Group and which are to be applied to business years starting on 1 January 2006. The application of these new and revised standards and interpretations has no effect on the valuation or the presentation of the balance sheet items.

The following standards and interpretations had already been issued at the time of preparation of the consolidated financial statements. Their application to business years beginning on or before 1 January 2006 was not mandatory, and the Group has not applied them early on a voluntary basis.

IFRS 8 – Operating Segments

This standard requires the application of a management approach to reporting on the economic development of the segments. Segment information is intended to correspond to internal reporting provided to the chief operating decision makers. IFRS 8 replaces IAS 14 and is to be applied to business years beginning on or after 1 January 2009.

IFRIC 7 – Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

This interpretation contains guidance on how an entity would restate its financial statements in the first year it identifies the existence of hyperinflation in the economy of its functional currency and consequently has to apply IAS 29. This interpretation is to be applied to business years starting on or after 1 March 2006.

IFRIC 8 – Scope of IFRS 2

IFRIC 8 clarifies that IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. This interpretation is to be applied to business years starting on or after 1 May 2006.

IFRIC 9 – Reassessment of Embedded Derivatives

This interpretation is about the accounting treatment of embedded derivatives in accordance with IAS 39. An assessment according to IAS 39.11 is to answer the question whether an embedded derivative is to be separated from the host contract and accounted for as if it is a stand-alone derivative. IFRIC 9 addresses the question when such an assessment is to be made, either only once when the entity first becomes a party to such a hybrid contract, or repeatedly throughout the life of the contract. IFRIC 9 details that an assessment of whether an embedded derivative is required to be separated from the host contract is to be made only once, at the conclusion of the contract. IFRIC 9 is to be applied to all business years starting on or after 1 June 2006.

IFRIC 10 – Interim Financial Reporting and Impairment

IFRIC 10 addresses the interaction between IAS 34 Interim Financial Reporting and the requirements on the recognition of impairment losses. It states that an entity shall not reverse an impairment loss that was recognized in a previous interim period and which shall not be reversed according to IAS 36 or IAS 39, in subsequent interim or annual financial reports or consolidated financial statements. IFRIC 10 is to be applied to all business years starting on or after 1 November 2006.

IFRIC 11 – IFRS 2: Group and Treasury Share Transactions

This interpretation provides guidance on how IFRS 2 is to be applied to share-based gratuity agreements when an entity grants its own equity instruments or the equity instruments of another group company to settle the share-based payment obligation. IFRIC 11 is to be applied to all business years starting on or after 1 March 2007.

IFRIC 12 – Service Concession Arrangements

This interpretation focuses on the recognition of service agreements in the books of private operators who provide public services, such as the construction of roads and airports or the provision of utility infrastructure, to governments and other governing bodies. In such agreements, the title to these assets remains with the public whereas the public operator is obliged to construct, to operate and to maintain the contract assets. IFRIC 12 is to be applied to all business years starting on or after 1 January 2008.

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

Note 04: Segment Reporting

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

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

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

- Fiber and Pulp Technology
- Mechanical Construction and Automation
- Mechatronics

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

Paper:
Segment Paper (= Business Unit Paper) produces poster paper, envelope paper and recycled paper.

2006	Fibers	Paper	Plastics	Engi-neering	Other	Con-solidation	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Sales to external customers	890,865	57,914	91,768	58,971	1,015	0	1,100,533
Inter-segment sales	11,959	0	1,685	44,584	1,480	(59,708)	0
Total sales	**902,824**	**57,914**	**93,453**	**103,555**	**2,495**	**(59,708)**	**1,100,533**
Segment result (EBIT)	89,605	(643)	8,851	10,136	459	(1,277)	107,131
Amortization / depreciation	61,175	3,862	2,641	768	33	(1,329)	67,150
Share in the result of associated companies	281	0	0	0	(3)	0	278
Segment assets	834,278	23,692	53,682	38,314	379	(22,519)	927,826
Segment liabilities	200,095	8,957	11,075	32,776	764	(7,387)	246,280
Additions to property, plant and equipment and intangible assets	93,326	1,362	9,825	946	39	(157)	105,341
Investments in associated companies	9,029	0	0	0	745	0	9,774

2005	Fibers	Paper	Plastics	Engi-neering	Other	Con-solidation	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Sales to external customers	767,625	53,108	79,912	41,238	737	0	942,620
Inter-segment sales	11,978	0	1,662	47,331	1,581	(62,552)	0
Total sales	**779,603**	**53,108**	**81,574**	**88,569**	**2,318**	**(62,552)**	**942,620**
Segment result (EBIT)	66,634	(1,159)	8,863	9,362	323	(2,215)	81,808
Amortization / depreciation	60,121	1,782	2,585	849	32	(1,246)	64,123
Share in the result of associated companies	633	0	0	0	(2)	0	631
Segment assets	813,816	25,503	43,603	27,154	228	(24,193)	886,111
Segment liabilities	198,596	6,435	9,916	29,638	712	(7,407)	237,890
Additions to property, plant and equipment and intangible assets	81,228	2,932	3,032	768	76	(5,642)	82,394
Investments in associated companies	9,898	0	0	0	748	0	10,646

Segment assets essentially comprise intangible assets and property, plant and equipment, inventories, trade receivables and other receivables and assets, except income tax receivables. Segment liabilities relate to trade payables, provisions and other liabilities, except income tax provisions and income tax liabilities. The prices for inter-segment deliveries are essentially determined on the same basis as for external customers.

Breakdown by region

Sales presented by geographical markets and assets and capital expenditure analyzed by the geographical area in which the assets are located were as follows:

	Sales		Assets		Capital expenditure	
	2006	2005	2006	2005	2006	2005
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Austria	157,969	134,771	693,483	679,987	48,756	65,180
EU ex Austria	399,159	336,913	58,333	56,106	7,176	995
Europe ex EU	62,248	45,725	0	0	0	0
Asia	397,686	359,981	149,459	118,710	48,491	15,569
America	73,922	56,177	26,551	31,308	918	650
Other	9,549	9,053	0	0	0	0
	1,100,533	**942,620**	**927,826**	**886,111**	**105,341**	**82,394**

The products of the Group are marketed globally. The production lines for segment Fibers are located in Austria, UK, USA and Indonesia. The main site, Lenzing, has an annual capacity of 230,000 tons. Its production focus is on fiber specialties such as modal and nonwovens. Lyocell production sites include Heiligenkreuz, Austria, Grimsby, UK, and Mobile, USA, with annual capacities of 40,000 tons each. A viscose fiber production plant is located in Purwakarta, Indonesia, with an annual capacity of 150,000 tons serving the Indonesian market and providing fiber for export. In addition, a viscose fiber production plant in Nanjing, China, with a scheduled annual capacity of 60,000 tons is under construction.

The production facilities of all other segments are mainly located in the Lenzing area.

Note 05: Sales

The sales increase of 16.8% to EUR 1,100,533 thousand was based above all on the good global fiber business which enabled an increase in sales from an increase in production and from selling price increases over 2005. Sales by segment and geographical markets are presented in Note 04.

Note 06: 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 in stock at the reporting date.

Note 07: 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 08: Other Operating Income

This heading comprises:

	2006	2005
	EUR '000	EUR '000
Release of investment grants previously recognized as deferred income	4,227	4,321
Income from government grants for emission rights	4,386	1,931
Sale of emission rights	2,192	0
Refunds for maintenance cost	1,986	2,623
Refunds from suppliers	0	2,536
Grants for partial funding of research projects	2,891	2,167
Revenues from staff canteen	1,110	1,099
Gain on the disposal of fixed assets	248	260
Insurance refunds	0	207
Other sundry operating income	620	3,051
	17,660	**18,195**

Note 09: Personnel Expenses

This heading comprises:

	2006	2005
	EUR '000	EUR '000
Wages and salaries	159,295	155,736
Expenses for severance payments	4,100	7,688
Pension expenses	3,811	3,220
Statutory social security contributions	38,124	36,751
Voluntary social spending	3,346	3,521
	208,676	**206,916**

Collective bargaining agreements for the Austrian sites resulted in an increase of 2.6% as of 1 May 2006. Similar agreements at the subsidiaries resulted in increases of 2.7% in the UK and 6.6% in Indonesia. There were no corresponding, generally binding agreements in other countries. Expenses for severance payments comprise expenses for statutory commitments of Lenzing AG and its Austrian subsidiaries to its staff members (see note 29) as well as voluntary severance payments and in 2005 provisions for payments in connection with restructuring amounting to EUR 2,630 thousand.

The Lenzing Group employed:

Headcount	2006	2005
Average	4,886	4,836
As at 31 December	5,044	4,860

Note 10: 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 67,150 thousand (2005: EUR 64,123 thousand) comprises systematic amortization and depreciation.

Note 11: Other Operating Expenses

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

	2006	2005
	EUR '000	EUR '000
Freight outward	39,993	38,800
Commissions and advertising costs	16,827	18,250
Service and maintenance and other purchased services	20,860	18,718
Insurance	6,974	6,864
Travel expenses	6,135	6,035
Legal, audit, and consultancy fees	7,398	5,427
Rentals and leases	2,684	3,194
Waste disposal	2,855	2,100
Emission certificates	4,386	1,931
Foreign currency losses	1,335	823
Other	16,933	13,195
	126,380	**115,337**

Note 12: Income from Operations (EBIT)

EBIT was improved by 31.0% to EUR 107,131 thousand in 2006 over the good but clearly weaker year 2005, despite high pressure from rising raw material and energy prices and the continuing weakness of the US Dollar. Segment Fibers provided a considerable contribution to this increase by higher volume production sold at higher prices and due to further improvement of its product portfolio which lead to better profit margins.

In 2006 research and development costs of EUR 16,081 thousand (2005: EUR 16,531 thousand) were recognized in the operating result.

Note 13: Income from Investments in Associates

In both 2005 and 2006, the income of EUR 278 thousand (2005: EUR 631 thousand) represents the Group's share in the current income of the associates.

Note 14: Other Investment Income

	2006	**2005**
	EUR '000	EUR '000
Expenses for financial assets and investments held as current assets	(2,975)	(49)
Interest and similar income from financial assets	715	1,121
Other interest and similar income	2,953	1,442
Income from the disposal of and write-ups to financial assets and investments held as current assets	3	3,313
	696	**5,827**

Note 15: Income Taxes

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

	2006	2005
	EUR '000	EUR '000
Current tax expense:		
current year	20,132	18,910
over- / underprovided in previous years	(121)	613
	20,011	**19,523**
Deferred taxes:		
relating to current year	1,112	(1,900)
relating to prior periods	1,658	0
losses incurred during the business year with no deferred tax asset recognized	4	1,004
change in valuation allowance on deferred tax assets	(12,552)	0
	(9,778)	**(896)**
	10,233	**18,627**

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

	2006	2005
	EUR '000	EUR '000
Income before taxes	**98,596**	**79,296**
Tax at Austrian tax rate (25%)	24,649	19,824
Tax-free income and tax allowances (in particular allowances for research and development)	(1,086)	(1,323)
Non-deductible expenses and withholding taxes	585	(1,698)
Income from investments in associates	(69)	(158)
Write-down relating to subsidiaries	(3,625)	0
Differences in tax rates	873	(34)
Tax expense relating to previous periods	1,538	1,012
Effect of changes in tax losses and other temporary differences not recognized as deferred tax asset	(12,632)	1,004
Actual tax expenses	**10,233**	**18,627**

As at 31 December 2006 the Tencel companies have tax loss carry-forwards amounting to EUR 61,481 thousand (2005: EUR 60,071 thousand). In accordance with IAS 12.35 no deferred tax asset was recognized for some part of the unused losses (EUR 6,056 thousand; 2005: EUR 55,257 thousand). Part of the increase of tax loss carry-forwards (EUR 83 thousand; 2005: EUR 2,179 thousand) is due to foreign currency translation. The losses may be carried forward indefinitely against future profits.

Note 16: Earnings per Share

Earnings per share are calculated as follows:

	2006	2005
Share of Lenzing AG shareholders in net income (in EUR '000)	83,889	56,875
Number of shares	3,675,000	3,675,000
Earnings per share in EUR	**22.83**	**15.48**

Note 17: Intangible Assets

Please refer to the table "Development of Fixed Assets" on pages 124 and 125 for a breakdown and the development of intangible assets.

The total carrying amount for item "Concessions, industrial property rights, licenses and similar rights" of EUR 7,043 thousand as at 31 December 2006 (31 December 2005: EUR 8,668 thousand) includes EUR 4,678 thousand (31 December 2005: EUR 5,650 thousand) for items developed internally.

Note 18: Property, Plant and Equipment

Please refer to schedule "Development of Fixed Assets" on pages 124 and 125 for a breakdown of item "Property, plant and equipment" and their development.

Finance leases

Agreements exist on the reconditioning of small water power stations which require the lessor to build, operate and maintain power stations. Lenzing AG purchases all energy generated at the price stipulated. Part of this price covers investment costs and therefore qualifies as contingent rent. At the end of the lease term the lease transfers ownership of the power stations to Lenzing AG against payment of a transfer fee. The book value of leased assets is EUR 797 thousand as at 31 December 2006 (31 December 2005: EUR 813 thousand) and is shown under item "Plant and machinery" in the fixed assets schedule.

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

Minimum lease payments	**2006**	**2005**
	EUR '000	EUR '000
Payable after five years	2,167	2,167
Less: future finance charges	(1,322)	(1,354)
Present value of lease obligation	**845**	**813**

Contingent rent in the amount of EUR 494 thousand was recognized as an expense in 2006.

Operating leasing

The Group has commitments under operating leases of property, plant and equipment that are not presented in the balance sheet. Operating expenses for 2006 include leasing and rental expenses of EUR 2,992 thousand (2005: EUR 3,417 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:

	2006	**2005**
	EUR '000	EUR '000
Within one year	2,227	2,304
In the following 2 to 5 years	3,711	5,088
Thereafter	460	650
Total	**6,398**	**8,042**

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

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

In addition, the Group has pledged property, plant and equipment to secure loans taken out by the Group. Please refer to note 27 for details. For the loans taken up to finance the viscose fiber production plant at Nanjing physical securities are to be provided to the lending banks once production is started. During construction plant and equipment must be insured for the benefit of the banks. Sale or lease of plant or equipment is not admissible without the banks‘ prior consent.

Purchase commitments

Open purchase orders for the delivery of property, plant and equipment as at 31 December 2006 came to EUR 58,375 thousand (31 December 2005: EUR 50,558 thousand). The further increase over the high pre-year figure is as in 2005 due to the construction in progress of the viscose fiber production plant at Nanjing, China, and investment projects at the Lenzing site.

Impairment of assets

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

Note 19: Investments in Associates

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

	31/12/2006	**31/12/2005**
	EUR '000	EUR '000
EQUI-Fibres Beteiligungsgesellschaft mbH, Krefeld, Germany	8,919	8,392
LKF Tekstil Boya Sanayi ve Tikaret A.S., Istanbul, Turkey	70	1,468
WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H., Vienna, Austria	745	748
RVL Reststoffverwertung Lenzing GmbH, Lenzing, Austria	40	38
	9,774	**10,646**

The Group's share in the income of these companies is shown in table "Development of Fixed Assets" on pages 124 and 125 as either write-up or depreciation. The reduction of the share in LKF is a result of a capital reduction in year 2006.

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

	EQUI	**LKF**	**WWE***	**RVL**
	EUR '000	EUR '000	EUR '000	EUR '000
Sales	162,597	0	0	8,714
Net income	2,014	(544)	(11)	3
Non-current assets	50,878	2	0	0
Current assets	59,222	1,977	3,011	200
Non-current liabilities	46,187	1,768	0	0
Current liabilities	37,304	2	30	120
Equity	26,609	209	2,981	80

* preliminary

Note 20: Other Financial Assets

Please refer to schedule “Development of Fixed Assets” on pages 124 and 125 for a breakdown and the development of other financial assets.

Securities held as fixed assets

Securities are valued at market prices.

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

2005	**Market value**	**Average effective interest rate**	**Income for business year**
	EUR ’000	in %	EUR ’000
Austrian federal bonds	11,900		
Bonds by other issuers	2,195		
Shares and equity funds	2,902		
Other securities	1,717		
	18,714	**6**	**1,106**

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

Loans

The loans of EUR 642 thousand (2005: EUR 480 thousand) included under this heading are granted to third parties.

Note 21: Other Non-Current Assets

This item represents the share held in a non-profit housing society (EUR 1,150 thousand), long-term receivables and accruals and the pension asset relating to the defined benefit plan of Lenzing Fibers (Hong Kong) Ltd. (see note 29).

Note 22: Inventories

	31/12/2006	31/12/2005
	EUR '000	EUR '000
Raw materials and supplies	61,640	62,135
Work in progress	9,722	10,784
Finished goods produced and merchandise held for resale	46,389	48,569
Prepayments	6,155	2,582
	123,906	**124,070**

Raw materials and supplies essentially comprise beech wood for pulp production, pulp, chemicals, 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, paper and plastics products, as well as products of Business Unit Engineering.

Note 23: Trade Receivables and other Receivables and Assets

This item comprises short-term receivables and deferred items as well as construction work in progress valued at EUR 2,273 thousand.

At 31 December 2006 aggregate costs incurred under open construction contracts and unrealized recognized profits, less recognized losses, amounted to EUR 8,321 thousand. Progress billings and advances received from customers under open construction contracts amounted to EUR 12,220 thousand.

Advances for which related work has not started, and billings in excess of costs incurred are presented as “Other liabilities” and came to EUR 6,172 thousand at 31 December 2006.

Moreover, this item includes emission rights granted to the Group with a book value of EUR 2,103 thousand (31 December 2005: EUR 3,100 thousand).

At 31 December 2006 provisions for doubtful accounts receivable amounted to EUR 11,872 thousand (31 December 2005: EUR 4,847 thousand). Receivables were assigned or pledged as collateral for liabilities (please refer to Note 27).

Note 24: Investments held as Current Assets

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

	Market value		Average yield	
	2006	2005	2006	2005
	EUR '000	EUR '000	in %	in %
Bonds	8,199	8,007	3.1%	3.2%

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

Note 25: Equity

Common stock and capital reserve

The common stock of Lenzing AG comprises 3,675,000 of no par value (unchanged from 31 December 2005) with each share being of equal value and holding equal rights and duties. The share capital is fully paid.

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

Retained earnings

Retained earnings comprise:

	EUR '000
Revenue reserve of Lenzing AG	200,927
Accumulated profit of Lenzing AG	36,775
Retained earnings of the subsidiaries and effects of adjusting the financial statements of Lenzing AG and its subsidiaries to IFRS	164,955
Total	**402,657**

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 2006 the parent's accumulated profit was EUR 36,775 thousand.

	EUR '000
After transfers to reserves, the profit for 2006 of Lenzing AG amounted to	36,757
Add: accumulated profit brought forward from 2005	18
Total accumulated profit	**36,775**

The Management Board proposes that:

	EUR
A dividend of EUR 10.00 per share be paid for the 3,675,000 shares which in total would amount to	36,750,000.00
The balance be carried forward to next year	24,916.69

Dividends are subject to the deduction of capital gains tax of 25%. This covers income tax for individuals with unlimited tax liability (Austrian final taxation). Corporations with unlimited tax liability holding at least 25% of common stock are exempt from capital gains tax. Double taxation agreements must be observed in the event of limited tax liability.

Minority interests

Minority interests represent the share of other shareholders in the equity of the consolidated subsidiaries. Third parties hold significant interests in PT. South Pacific Viscose and Lenzing (Nanjing) Fibers Co., Ltd.

The development of equity is as set out on the following page:

Development of Equity	**Share of Lenzing AG shareholders**					**Minority interests**	**Equity Total**
	Common stock	**Capital reserves**	**Currency translation reserves**	**Retained earnings and other reserves**	**Total**		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
As at 1/1/2005	**26,717**	**63,600**	**(4,001)**	**329,656**	**415,972**	**13,022**	**428,994**
Recognized income and expense							
taken directly to equity			5,633	(11,473)	(5,840)	2,242	(3,598)
transferred to profit or loss				(6,098)	(6,098)	0	(6,098)
Tax on items taken directly to or transferred from equity				4,275	4,275	14	4,289
Net income / loss recognized directly in equity	0	0	5,633	(13,296)	(7,663)	2,256	(5,407)
Net income				56,875	56,875	3,794	60,669
Total recognized income and expense for 2005	0	0	5,633	43,579	49,212	6,050	55,262
Contribution to capital						3,409	3,409
Dividends				(29,400)*	(29,400)	(2,787)	(32,187)
As at 31/12/2005	**26,717**	**63,600**	**1,632**	**343,835**	**435,784**	**19,694**	**455,478**
Recognized income and expense							
taken directly to equity			(4,318)	3,105	(1,213)	(2,504)	(3,717)
transferred to profit or loss				2,288	2,288	0	2,288
Tax on items taken directly to or transferred from equity				(1,109)	(1,109)	91	(1,018)
Net income/loss recognized directly in equity	0	0	(4,318)	4,284	(34)	(2,413)	(2,447)
Net income				83,889	83,889	4,474	88,363
Total recognized income and expense for 2006	0	0	(4,318)	88,173	83,855	2,061	85,916
Contribution to capital						5,974	5,974
Dividends				(29,400)*	(29,400)	(2,001)	(31,401)
Other				49	49		49
As at 31/12/2006	**26,717**	**63,600**	**(2,686)**	**402,657**	**490,288**	**25,728**	**516,016**

* The dividend per share was EUR 8.

Note 26: Government Grants

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

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

Moreover, this heading comprises the remaining government grants for emission certificates of EUR 184 thousand (31 December 2005: EUR 1,169 thousand) representing the value of emission certificates at the date of assignment less the amount recognized as income.

Note 27: Liabilities with Banks and other Loans

Financial liabilities are liabilities with banks and other loans. They comprise the following as at 31 December:

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

* Revolving credits and current accounts

2005	Currency	Nominal amount	Carrying amount	Average effective interest rate
		EUR '000	EUR '000	in %
Liabilities with banks				
Loans:				
Fixed interest	EUR	68,443	68,443	3.91
Fixed and variable interest	EUR	5,784	5,784	1.25
Variable interest	EUR	38,069	38,072	3.83
	USD	22,671	19,164	6.76
Working capital loans*, variable interest	EUR	61,833	61,833	2.54
	USD	205	174	5.00
	GBP	1,962	2,884	5.36
			196,354	
Other loans				
Fixed interest	EUR	4,403	4,403	2.00
Fixed and variable interest	EUR	36,223	36,223	3.41
Variable interest	EUR	2,894	2,894	2.92
	USD	16,797	14,199	5.99
			57,719	
Total financial liabilities			**254,073**	
Short-term			54,142	
Long-term			199,931	

* Revolving credits and current accounts

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

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

31/12/2005	Variable interest	Fixed and variable interest	Fixed interest	Total
	EUR '000	EUR '000	EUR '000	EUR '000
On demand or within one year	39,159	12,165	2,818	54,142
More than one to two years	20,586	10,768	2,548	33,902
More than two to three years	59,816	9,478	2,266	71,560
More than three to four years	3,907	5,562	52,337	61,806
More than four to five years	3,450	2,984	1,649	8,083
More than five years	12,302	1,050	11,228	24,580
	139,220	**42,007**	**72,846**	**254,073**
Less amounts due for settlement within 12 months	(39,159)	(12,165)	(2,818)	(54,142)
Amounts due for settlement in more than 12 months	**100,061**	**29,842**	**70,028**	**199,931**

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

Revolving credits

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

Fixed term loans

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

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

	2006	2005
	EUR '000	EUR '000
Liabilities with banks	**74,578**	**77,835**
Assignment of receivables	53,193	49,627
Mortgages, movable fixed assets pledged as collateral	21,385	28,208
Other loans	**797**	**814**
Assets leased under a finance lease	797	813
Mortgages	0	1

Note 28: Deferred Taxes

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

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

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

	31/12/2006	**31/12/2005**
	EUR '000	EUR '000
Deferred tax assets:		
Property, plant and equipment	2,683	0
Financial assets	0	326
Current assets	4,964	686
Provisions	9,652	12,258
Liabilities	159	0
Loss carry-forwards	15,985	17,994
	33,443	**31,264**
Valuation allowance	(5,256)	(14,812)
Total deferred tax assets	**28,187**	**16,452**
Offset against deferred tax liabilities	(26,746)	(15,419)
Net deferred tax assets	**1,441**	**1,033**
Deferred tax liabilities:		
Intangible fixed assets	701	779
Property, plant and equipment	19,041	20,908
Financial assets	258	0
Current assets	3,408	0
Provisions	0	112
Special depreciation for taxation purposes	1,371	1,609
Government grants	1,083	3,685
Liabilities	8,978	5,050
Total deferred tax liabilities	**34,840**	**32,143**
Offset against deferred tax assets	(26,746)	(15,419)
Net deferred tax liabilities	**8,094**	**16,724**

Deferred taxes developed as follows:

	31/12/2006	31/12/2005	Change
	EUR '000	EUR '000	EUR '000
Deferred tax assets	1,441	1,033	408
Deferred tax liabilities	(8,094)	(16,724)	8,630
Net	**(6,653)**	**(15,691)**	**9,038**

Thereof:	
directly debited to equity	(1,018)
exchange differences	278
recognized as income in the income statement	9,778
	9,038

At both 31 December 2006 and 31 December 2005, deferred tax assets were only recognized to the extent that it is probable that sufficient future taxable profit will be available against which the assets can be utilized.

Note 29: Provisions

The Group's provisions comprise:

2006	Balance as at 1/1	Currency translation adjustment	Reclassification	Consumption	Reversal	Period Charge	Balance as at 31/12	Shortterm	Longterm
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Severance payments	48,364	0	0	(2,081)	0	4,437	50,720	1,815	48,905
Pensions	24,618	(128)	0	(2,382)	(102)	1,692	23,698	1,954	21,744
Anniversary bonuses	12,921	0	0	(550)	0	1,034	13,405	1,609	11,796
Unconsumed vacation	6,142	(52)	0	(6,086)	0	6,053	6,057	6,057	0
Restructuring	3,107	3	0	(2,507)	(103)	265	765	765	0
Other personnel costs	17,557	(216)	0	(16,821)	(42)	18,848	19,326	19,326	0
Guarantees and warranties	1,063	(38)	0	(55)	(242)	596	1,324	1,324	0
Anticipated losses and other risks	7,679	0	380	(78)	(916)	290	7,355	7,355	0
Impending losses from derivative financial instruments	3,932	1	0	(3,933)	0	85	85	85	0
Emission certificates	1,931	0	0	(1,931)	0	1,918	1,918	1,918	0
Other	14,463	(561)	(380)	(8,393)	(968)	14,757	18,918	18,918	0
Provisions	**141,777**	**(991)**	**0**	**(44,817)**	**(2,373)**	**49,975**	**143,571**	**61,126**	**82,445**

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

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

Pensions

Defined benefit plans

Lenzing AG, Lenzing Fibers Inc. and Lenzing Fibers (Hong Kong) Ltd. 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 essentially unfunded or only partly covered by pension plan assets.

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

Lenzing Fibers Inc. sponsors defined benefit pension plans for its eligible salaried staff and for employees who belong to the Bargaining Unit. The latter receive staggered pension payments for each year of service based on the employee's compensation in the year. The scheduled retirement age is 65. Staff members with 20 years of service are entitled to early retirement at age 55. Both defined benefit plans described were frozen, which means that no new pension entitlements may be created under these plans.

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

The principal actuarial assumptions are:

Actuarial assumptions	**2006**	**2005**
Discount rate p.a. in %		
Austria	4.0	4.0
USA	5.8	5.5
Indonesia	10.5	12.0
Hong Kong	3.8	4.3
Estimated future salary and pension increases p.a. in %		
Austria	2.0 - 2.5	2.0 - 2.5
USA	0.0	0.0
Indonesia	9.0	10.0
Hong Kong	3.0	3.3
Expected rate of return on plan assets p.a. in %		
Austria	7.7	7.7
USA	7.5	7.2
Indonesia	N / A	N / A
Hong Kong	7.0	7.0

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

	2006	**2005**
	EUR '000	EUR '000
Interest cost	1,482	1,541
Current service cost	339	226
Past service cost	55	52
Administrative and other costs	1	1
Expected return on plan assets	(417)	(514)
Effect of plan curtailments	0	(485)
Effect of plan settlements	39	0
Total expense	**1,499**	**821**

Expenses are presented in the income statement under the heading “Personnel expenses”, namely under “Pension expenses”. The actual return on plan assets was EUR 524 thousand (2005: EUR 509 thousand).

Actuarial losses recognized directly in equity in 2006 came to EUR 44 thousand (2005: EUR 3,142 thousand). Accumulated actuarial losses as at 31 December 2006 came to EUR 3,947 thousand (31 December 2005: EUR 3.903 thousand).

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

	31/12/2006	31/12/2005
	EUR '000	EUR '000
Present value of obligation (DBO)	31,100	32,249
Fair value of plan assets	(7,265)	(7,315)
Deficit in plan	**23,835**	**24,934**
Unrecognized past service cost	(353)	(413)
Net amount recognized in the balance sheet	**23,482**	**24,521**
Presented as:		
Non-current assets	(216)	(97)
Long-term provision	21,744	22,934
Short-term provision	1,954	1,684
	23,482	**24,521**

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

	2006	2005
	EUR '000	EUR '000
Present value of obligation (DBO) as at 1/1	**32,249**	**29,487**
Interest cost	1,482	1,541
Current service cost	339	226
Actuarial losses	113	3,073
Currency translation adjustment	(446)	720
Benefits paid	(2,677)	(2,313)
Plan settlements	40	0
Plan curtailments	0	(485)
Present value of obligation (DBO) as at 31/12	**31,100**	**32,249**
Fair value of plan assets as at 1/1	**7,315**	**6,431**
Contributions	287	284
Administration and other costs	(1)	(1)
Expected return on plan assets	417	514
Actuarial gains/losses	69	(69)
Benefits paid	(500)	(222)
Currency translation adjustment	(322)	378
Fair value of plan assets as at 31/12	**7,265**	**7,315**

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

	2006	2005
	EUR '000	EUR '000
Equity instruments	1,954	1,904
Debt instruments	673	973
Insurance policies qualifying as plan assets	4,241	4,295
Other assets	397	143
Balance as at 31/12	**7,265**	**7,315**

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

	2006	2005
	EUR '000	EUR '000
Present value of defined benefit obligation (DBO)	31,100	32,249
Fair value of plan assets	(7,265)	(7,315)
Deficit	**23,835**	**24,934**
Experience adjustments [(+) gain / (-) loss]:		
on defined benefit obligation (DBO)	(18)	(917)
on plan assets	44	(69)

The Group expects to make contributions of EUR 108 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 2006 came to EUR 2,312 thousand (2005: EUR 2,521 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.

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

	2006	2005
	EUR '000	EUR '000
Present value of obligation (DBO) as at 1/1	**48,364**	**41,185**
Interest cost	1,935	2,059
Current service cost	2,334	2,447
Total expense	**4,269**	**4,506**
Benefits paid	(2,082)	(3,283)
Actuarial gain (-) / loss (+)	169	5,956
Present value of obligation (DBO) as at 31/12	**50,720**	**48,364**
Number of eligible persons	2,596	2,690

Actuarial assumptions		
Discount rate in % p.a.	4.0	4.0
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 losses recognized directly in equity in the statement of recognized income and expense came to EUR 169 thousand (31 December 2005: EUR 5,956 thousand). Accumulated actuarial losses as at 31 December 2006 came to EUR 3,250 thousand (31 December 2005: EUR 3,081 thousand).

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

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

Staff members with employment contracts under Austrian law with a commencement date later than 31 December 2002 acquire no severance payment claims. Contributions in the form of 0.53% of the respective wage or salary are paid in to a separate precautionary fund for employees (“Mitarbeitervorsorgekasse”). In 2006 contributions of EUR 247 thousand (2005: EUR 185 thousand) were paid.

Provisions for anniversary bonuses

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

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

	2006	2005
	EUR '000	EUR '000
Present value of the obligation (DBO) as at 1/1	**12,921**	**11,510**
Interest cost	517	595
Current service cost	355	751
Actuarial losses	162	920
Total expense	**1,034**	**2,266**
Benefits paid	(550)	(855)
Present value of obligation (DBO) as at 31/12	**13,405**	**12,921**
Number of eligible persons	2,628	2,634

Actuarial assumptions		
Discount rate in % p.a.	4.0	4.0
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.

Note 30: Contingent Liabilities and Financial Guarantee Contracts

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

	2006	2005
	EUR '000	EUR '000
Cumulative assumption of debt in favor of Businesspark Heiligenkreuz GmbH	0	3.597
Assumption of liability for associated companies	9.330	6.472
Assumption of liability for third parties	1.989	0

Lenzing Fibers GmbH, as the legal successor to Energie- und Medienzentrale Heiligenkreuz GmbH & Co KG, and Businesspark Heiligenkreuz GmbH guaranteed the repayment of grants received by Businesspark Heiligenkreuz GmbH in the event that Businesspark Heiligenkreuz GmbH would not meet its obligations. This liability expired in 2006.

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

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

Litigation

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

Note 31: Notes to 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 2 also apply to the translation of cash flows.

Gross cash flow is calculated as follows:

	2006	2005
	EUR '000	EUR '000
Net income	**88,363**	**60,669**
+ Depreciation of		
property, plant and equipment and amortization of intangible assets	67,150	64,123
financial assets	14	4
- Release of investment grants previously recognized as deferred income	(4,227)	(4,321)
- Write-ups of financial assets	(2)	(28)
+ Period change / - Consumption or reversal of long-term provisions	1,611	1,225
- Gains / + Losses on the disposal of		
Intangible assets, property, plant and equipment	2,549	724
Financial assets	0	1
- Deferred tax income / + deferred tax expense	(9,778)	(896)
- Non-cash income from associated companies	(278)	(631)
- Other non-cash income / + expenses	2,489	(519)
Gross cash flow	**147,891**	**120,351**

The change in working capital comprises:

	2006	2005
	EUR '000	EUR '000
+ Decrease / - increase in inventories	(3,912)	(332)
+ Decrease / - increase in accounts receivable	(15,935)	(2,659)
- Decrease / + increase in accounts payable	18,105	6,973
Change in working capital	**(1,742)**	**3,982**

Cash flow from investing activities comprises:

	2006	2005
	EUR '000	EUR '000
- Acquisition of non-current assets		
Intangible assets, property, plant and equipment	(105,341)	(82,394)
Financial assets and other non-current assets	(316)	(1,650)
	(105,657)	**(84,044)**
Acquisition of investments held as current assets	**0**	**(7,995)**
+ Proceeds from the disposal / redemption of non-current assets		
Intangible assets and property, plant and equipment	571	1,472
Financial assets	2,621	1,378
	3,192	**2,850**
Net cash used in investing activities	**(102,465)**	**(89,189)**

The payments of other shareholders in the amount of EUR 5,974 thousand concern the payments of the minority shareholders of (Nanjing) Fibers Co., Ltd and European Precursor GmbH for their share in common stock.

Receipts from financing activities comprise:

	2006	2005
	EUR '000	EUR '000
+ Investment grants	2,160	989
+ Receipts from long-term loans and borrowings	56,135	59,583
Receipts from financing activities	**58,295**	**60,572**

The Group's liquid funds comprise:

	31/12/2006	31/12/2005
	EUR '000	EUR '000
Cash	83,526	72,312
Cash equivalents	5,281	4,785
Total	**88,807**	**77,097**

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

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

	2006	2005
	EUR '000	EUR '000
Interest received	2,998	1,970
Interest paid	8,124	8,736
Taxes paid	13,859	23,527

Note 32: Related Party Transactions

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

Business relationships with minority shareholders of subsidiaries

Management fees paid by subsidiaries to minority shareholders amounted to EUR 2,371 thousand (2005: EUR 2,918 thousand).

Lenzing AG provided loans to minority shareholders of subsidiaries, the outstanding balance being EUR 310 thousand as at 31 December 2006 (31 December 2005: EUR 292 thousand). The balance of the provision for doubtful debt relating to these loans is EUR 141 thousand (31 December 2005: EUR 105 thousand).

Liabilities include loans of minority shareholders amounting to EUR 13,310 thousand (31 December 2005: EUR 14,199 thousand). These are subordinated loans at variable interest. The interest rate is based on LIBOR plus a surcharge and is adjusted every six months.

Business transactions with associated companies

These transactions were essentially with:

EQUI-Fibres Beteiligungsgesellschaft mbH and its subsidiaries:
Supply of pulp, machinery and equipment

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

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

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

2005	EQUI	LKF	RVL
	EUR '000	EUR '000	EUR '000
Sales	696	0	7,939
Cost of purchased services	0	0	7,939
Other operating expenses	0	0	42
Interest income	0	5	0
Trade receivables	4	5	0
Advances received	3,500	0	9

Lenzing AG assumed proportionate liability for loans to a subsidiary of EQUI-Fibres Beteiligungsgesellschaft mbH and in 2005 Lenzing AG took over a claim of uncertain amount for EUR 1,500 thousand from an associated company. The claim is against the vendor of a company acquired in 2004 about the reduction of the purchase price.

Remuneration of Management and Supervisory board members

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

	2006	2005
	EUR '000	EUR '000
Short-term employee benefits	1,820	1,813
Post-employment benefits	124	106
	1,944	1,919

Payments to former members of the Management board or their dependants came to EUR 794 thousand in 2006 (2005: EUR 816 thousand).

Note 33: Risk Management

The Group is exposed to various financial risks such as risks from foreign-currency fluctuations (primarily from the US dollar), from changes in interest rates and market values as well as liquidity, credit and cash flow risks. There are clearly defined policies for handling financial risks, which are continuously monitored and documented by the Management Board. The objective of risk management is the minimization of financial risks. Maximum risk transparency and information quality is achieved by means of precise and up-to-date presentation and quantification of all risk categories.

Market risk

Foreign currency risk

The companies of the Group have receivables, liabilities and bank balances denominated in a foreign currency resulting from their operating activities. The Group uses derivative financial instruments, namely foreign currency forward contracts and options, to hedge its foreign currency risk.

Interest rate risk

Interest rate changes affect the Group's financing, investing and cash-management activities. The Group has fixed-interest securities and loans receivable with a carrying amount close to their market or fair value amounting to EUR 17,796 thousand (2005: EUR 19,194 thousand) and securities held as current assets with a carrying amount equalling their market value of EUR 8,199 (2005: EUR 8,007 thousand). The fair value of these assets is subject to fluctuations because of changes in market interest rates.

The Group also has fixed-interest liabilities and liabilities combining fixed and floating interest rates with banks and other lenders amounting to EUR 120,829 thousand. The fair value of these liabilities is subject to fluctuations because of changes in market interest rates. As at 31 December 2006 such liabilities had a fair value of approximately EUR 118,184 thousand.

Price risk

Some sites had to cope with considerable gas price increases during the year. As part of the measures to optimize energy cost the Group largely centralized natural gas purchasing from the middle of 2006 on and for the first time used future contracts traded at the respective commodity exchange to control and cover price-related risks.

Beyond that, the company is exposed to price risk usual in the line of business which is not provided for.

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 2006 the Group had at its disposal open credit lines confirmed in writing of EUR 217,667 thousand (31 December 2005: 193,696 thousand) for financing required operating resources, as well as for covering potential shortfall caused by economic cycles.

Credit risk

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

The maximum credit risk is equivalent to the carrying amount of monetary assets. These are loans receivable (EUR 642 thousand), securities held as fixed and current assets (EUR 25,353 thousand), receivables (EUR 170,133 thousand) and liquid funds (EUR 88,807 thousand). In addition, the Group has assumed liability for other companies amounting to EUR 11,319 thousand of which EUR 9,330 thousand relate to associated companies. The Group will be charged if these companies do not meet their commitments.

The maximum credit risk exposure involving one single bank consists of time deposits and bonds issued by that bank of approximately EUR 32 mill. Apart from this there are no concentrations of credit risk.

Cash flow risk

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

Liabilities at variable interest rates with banks and other lenders of EUR 122,043 thousand as at 31 December 2006 lead to fluctuations in cash flows related to these liabilities, that is, interest cost, whenever there are changes in the market interest rate.

Note 34: Financial Instruments

Primary financial instruments

The market values of cash and cash equivalents and investments held as fixed and current assets correspond to the carrying amount. The carrying amount of loans receivable approximates to their market value.

The market value of receivables also approximates to their carrying amount, as they are short-term and credit risk is covered by adequate allowances.

The carrying amount of short-term and long-term liabilities with banks and other lenders amounted to EUR 242,872 thousand as at 31 December 2006 (31 December 2005: EUR 254,073 thousand). This compares to a market value of EUR 240,227 thousand as at 31 December 2006 (31 December 2005: EUR 254,880 thousand). The market value of other liabilities corresponds to their carrying amount due to their short-term maturity. The market value was derived by discounting future cash flows related to these liabilities by applying the market interest rate at the reporting date.

Derivative financial instruments

Instruments for hedging exchange rate risk

The Group utilizes foreign currency forward contracts and options to hedge currency risks related to foreign currency exposures and expected future transactions of companies having the euro, British pound or the US dollar as functional currencies. Such contracts are stated at their market value.

Fair Value Hedges

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

Type of derivative financial instrument	as at 31 December 2006		as at 31 December 2005	
	Nominal	Gain (+) / loss (-)	Nominal	Gain (+) / loss (-)
Functional currency / foreign currency	in '000 foreign curr.	EUR '000	in '000 foreign curr.	EUR '000
Forward contracts				
EUR purchase / USD sale	29,149	1,339.1	21,050	(1,346.5)
EUR sale / USD purchase	131	(5.6)	0	0.0
EUR purchase / JPY sale	9,045	2.1	0	0.0
EUR purchase / GBP sale	0	0.0	150	(8.9)
EUR purchase / SEK sale	0	0.0	530	(0.2)
GBP purchase / EUR sale	1,100	45.2	0	0
GBP purchase / JPY sale	20,000	29.4	0	0
GBP purchase / USD sale	2,300	126.4	0	0
GBP sale / JPY purchase	14,000	(0.4)	0	0
GBP sale / USD purchase	1,000	0.6	0	0
USD purchase / EUR sale	601	(25.5)	210	10.4
USD sale / EUR purchase	0	0.0	210	(27.2)
USD purchase / JPY sale	0	0.0	18,000	12.4
USD sale / JPY purchase	0	0.0	18,000	(17.8)
Total		**1,511.3**		**(1,377.8)**
Options				
GBP purchase / USD sale	0	0.0	1,000	(6.8)
EUR purchase / USD sale	5,000	243.4	3,500	12.3
Total		**243.4**		**5.5**

Cash flow hedges

For companies with the same functional currency, the respective net exposures in foreign currencies for the next business year are determined in the course of preparing the budget. Purchases in a specific foreign currency and sales in the same foreign currency are aggregated and hedged as a group. Approximately 80% of the budgeted net exposure for business year 2007 was hedged as at 31 December 2006 with contracts having maturities of up to 14 months.

Gains or losses from measuring cash flow hedges are recognized directly in equity and reclassified into operating profit or loss when the hedged transactions affect profit or loss. The market value of open cash flow hedges recognized directly in equity amounted to EUR 3,892 thousand as at 31 December 2006 and to EUR -2,547 thousand as at 31 December 2005.

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

Type of derivative financial instrument	as at 31 December 2006 Nominal	as at 31 December 2006 Gain (+) / loss (-)	as at 31 December 2005 Nominal	as at 31 December 2005 Gain (+) / loss (-)
Functional currency / foreign currency	in '000 foreign curr.	EUR '000	in '000 foreign curr.	EUR '000
Forward contracts				
EUR purchase / USD sale	122,166	2,432.0	108,499	(1,988.8)
EUR purchase / GBP sale	900	(10.1)	875	(12.2)
EUR sale / USD purchase	25,057	(51.0)	0	0.0
EUR sale / GBP purchase	288	16.1	0	0.0
GBP purchase / EUR sale	0	0.0	11,500	107.8
GBP purchase / USD sale	17,550	581.0	18,000	(208.9)
GBP purchase / JPY sale	0	0.0	185,000	45.7
USD purchase / EUR sale	0	0.0	10,206	418.6
Total		**2,968.0**		**(1,637.8)**
Options				
EUR purchase / USD sale	40,000	923.6	45,000	(911.4)
EUR purchase / CHF sale	0	0.0	8,000	2.3
Total		**923.6**		**(909.1)**

Instruments for hedging natural gas price risk

The involved risks are hedged by purchasing future contracts covering gas purchases. Before the end of the month that precedes the month when the hedged gas deliveries take place, the future contracts are sold and at the same time the prices for the gas purchases of the next month are determined. The hedges at 31 December 2006 have maturities of up to 12 months. Unrealized losses from the valuation of open contracts and the sale of closed future contracts at the reporting date came to EUR -1,019 thousand. They were recognized directly in equity and will be transferred to the operating result as soon as the delivered gas is recognized as cost.

Note 35: Events after the Balance Sheet Date

Business Unit Plastics will take over 100% of the German plastics producer Hahl Group GmbH. In addition to the main production site in Germany, a production site in Plana, Czech Republic, and a sales office in Great Britain form part of the enterprise. Its main markets are Europe and Asia, with North America to be targeted in the future. This transaction is pending the approval of the national cartel authorities of Germany and Austria and is expected to be completed by the end of the first quarter of 2007. The company with a staff of 240 realized sales of EUR 35 mill. in 2006.

Business Unit Plastics, moreover, expands into the production of carbon fibers by a joint venture with SGL Carbon AG in Wiesbaden, Germany and Kelheim Fibres GmbH in Kelheim, Germany. The venture is pending the approval of the cartel offices. Operations at Kelheim are to start in 2007, with a scheduled medium-term investment volume of EUR 50 mill.

Note 36: Direct and Indirect Investments of Lenzing AG as at 31 December 2006

Investment	Currency	Common stock	Ownership interest
			in %
Fully consolidated companies:			
Beech Investment s.r.o., Zlaté Moravce, Slovakia	SKK	200,000	100.00
BZL-Bildungszentrum Lenzing GmbH, Lenzing, Austria	EUR	43,604	75.00
Energie- und Medienzentrale Heiligenkreuz GmbH, Heiligenkreuz, Austria	EUR	72,673	100.00
European Precursor GmbH, Kelheim, Germany	EUR	25,000	95.00
LENO Electronics GmbH, Lenzing, Austria	EUR	40,000	55.00
Lenzing Beteiligungs GmbH, Lenzing, Austria	EUR	35,000	100.00
Lenzing Deutschland Syncell GmbH, Ditzingen, Germany (in liquidation)	EUR	30,000	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) GmbH, Lenzing, Austria	EUR	36,000	100.00
Lenzing Fibers Holding GmbH, Lenzing, Austria	EUR	35,000	100.00
Lenzing Fibers (Hong Kong) Ltd., Hong Kong	HKD	16,000,000	100.00
Lenzing Fibers Inc., New York, USA	USD	10	100.00
Lenzing Fibers Ltd., Nottingham, UK	GBP	130,233,265	100.00
Lenzing Holding GmbH, Lenzing, Austria	EUR	35,000	100.00
Lenzing (Nanjing) Fibers Co., Ltd., Nanjing, China	USD	37,000,000	70.00
Lenzing Plastics GmbH, Lenzing, Austria	EUR	35,000	100.00
Lenzing Services Ltd., Nottingham, UK	GBP	1,000	100.00
Lenzing Technik GmbH, Lenzing, Austria	EUR	35,000	100.00
Lyocell Holding Ltd., Nottingham, UK	GBP	1,000	100.00
PT. South Pacific Viscose, Purwakarta, Indonesia	IDR	72,500,000,000	41.98
Pulp Trading GmbH, Lenzing, Austria	EUR	40,000	100.00
Tencel Holding Ltd., Nottingham, UK	GBP	1	100.00
Tencel Holding Overseas Ltd., Jersey, Channel Islands	GBP	1,001	100.00
Companies accounted for at equity-method:			
RVL Reststoffverwertung Lenzing GmbH, Lenzing, Austria	EUR	36,336	50.00
WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H., Vienna, Austria	EUR	36,336	25.00
EQUI-Fibres Beteiligungsgesellschaft mbH, Krefeld, Germany	EUR	2,000,000	35.00
LKF Tekstil Boya Sanayi ve Ticaret A.S., Istanbul, Turkey	TRL	200,000	33.34

Note 37: Corporate Bodies

Members of the Supervisory Board

Karl Schmutzer, Vienna
Chairman

Walter Lederer, Vienna
Deputy Chairman

Horst Bednar, Vienna

Hermann Bell, Linz

Veit Sorger, Vienna

Franz Zwickl, Vienna
(until 14 June 2006)

Works Council Representatives

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

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

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

Members of the Management Board

Thomas Fahnemann
Chairman

Christian Reisinger

Peter Untersperger

Note 38: Release of the Consolidated Financial Statements

The present consolidated financial statements were released on 12 March 2007 by the Management Board for examination by the Supervisory Board, for submission to the Shareholders' Meeting and for subsequent publication. The Supervisory Board is entitled to initiate changes to the consolidated financial statements within the framework of its supervisory duty.

Lenzing, 12 March 2007

The Management Board:

Thomas Fahnemann

Christian Reisinger

Peter Untersperger

Development of Fixed Assets

	Costs					
	as at 1/1/2006	Currency translation adjustment	Additions 2006	Disposals 2006	Reclassi-fications 2006	as at 31/12/2006
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Development of intangible assets						
1. Concessions, industrial property rights and similar rights	28,874	-42	1,192	5,285	31	24,770
thereof: internally generated	13,180	0	974	1,235	0	12,919
2. Goodwill	3,960	-100	0	0	0	3,860
3. Prepayments	31	0	16	0	-31	16
Total for intangible assets	**32,865**	**-142**	**1,208**	**5,285**	**0**	**28,646**
Development of property, plant and equipment						
1. Land and buildings	212,325	-1,738	3,056	1,168	1,791	214,266
2. Plant and machinery, fixtures, fittings and other assets	1,246,517	-10,608	23,899	24,628	12,693	1,247,873
3. Prepayments and work under construction	24,240	-1,922	77,178	0	-14,484	85,012
Total for property, plant and equipment	**1,483,082**	**-14,268**	**104,133**	**25,796**	**0**	**1,547,151**
Development of financial assets						
1. Investments in associates	3,330	0	0	1,063	0	2,267
2. Loans	896	0	216	193	281	1,200
3. Securities	46,840	0	100	1,361	0	45,579
Total for financial assets	**51,066**	**0**	**316**	**2,617**	**281**	**49,046**

Accumulated depreciation and amortization								
as at 1/1/2006	**Currency translation adjustment**	**Depreciation 2006**	**Write-ups 2006**	**Disposals 2006**	**Reclassi-fications 2006**	**as at 31/12/2006**	**Carrying amount as at 31/12/2006**	**Carrying amount as at 31/12/2005**
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
20,206	-20	1,565	0	4,024	0	17,727	7,043	8,668
7,530	0	711	0	0	0	8,241	4,678	5,650
0	0	0	0	0	0	0	3,860	3,960
0	0	0	0	0	0	0	16	31
20,206	**-20**	**1,565**	**0**	**4,024**	**0**	**17,727**	**10,919**	**12,659**
121,807	-512	6,495	0	915	0	126,875	87,391	90,518
764,917	-6,676	59,090	0	23,021	0	794,310	453,563	481,600
0	0	0	11	0	0	-11	85,023	24,240
886,724	**-7,188**	**65,585**	**11**	**23,936**	**0**	**921,174**	**625,977**	**596,358**
-7,316	203	135	529	0	0	-7,507	9,774	10,646
416	0	40	3	0	105	558	642	480
28,126	0	299	0	0	0	28,425	17,154	18,714
21,226	**203**	**474**	**532**	**0**	**105**	**21,476**	**27,570**	**29,840**

Auditor's Report

Report on the Consolidated Financial Statments

We have audited the accompanying consolidated financial statements of Lenzing Aktiengesellschaft, Lenzing, for the financial year from 1 January 2006 to 31 December 2006. These consolidated financial statements comprise the balance sheet as at 31 December 2006, and the income statement, the statement of changes in equity and cash flow statement for the year ended 31 December 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

Our audit did not give rise to any objections. Based on the results of our audit in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2006, and of its financial performance and its cash flows for the financial year from 1 January 2006 to 31 December 2006 in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

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

Vienna, 12 March 2007

Deloitte.

Eidos Deloitte
Chartered Accountants and
Tax Consultants

Nikolaus Schaffer
Chartered Accountant

Harald Breit
Chartered Accountant

Report of the supervisory board on business year 2006

To the 63rd regular shareholders‘ meeting:

Dear Shareholders

In the course of business year 2006, the Supervisory Board of Lenzing AG was informed by the Management Board on the company’s activities on the occasion of four meetings. The further strategic development of the company, as well as major business transactions and measures were discussed with the Management Board and the required decisions were made. In the course of these meetings, the Management Board informed the Supervisory Board on the financial position of Lenzing AG and the Lenzing Group by means of detailed written reports. Moreover, the Chairman of the Supervisory Board and his deputy had the Management Board provide them with information on a regular basis. The Financial Audit Committee met once.

The financial statement and the management report of Lenzing AG for 31 December 2006 were audited by Eidos Deloitte Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH, Vienna, under the inclusion of accounting. The auditor confirmed that the financial statement is in accordance with legal regulations and presents fairly, in all material respects, the financial position of Lenzing AG as of 31 December 2006. The auditor further confirmed that the financial statement presents fairly, in all material respects, the financial performance of the business year from 1 January 2006 to 31 December 2006 in accordance with the generally accepted accounting practices of Austria, and that the management report is consistent with the financial statement.

Eidos Deloitte Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH, Vienna, audited the consolidated financial statements for business year 2006 that were compiled in accordance with International Financial Reporting Standards as adopted by the EU. It came to the opinion that the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and its financial performance and its cash flows for the financial year from 1 January 2006 to 31 December 2006 and that the management report is consistent with the consolidated financial statements.

The Financial Audit Committee at its meeting of 30 March 2007 gave its detailed attention to the audit reports and exhaustively discussed the audit results with the auditor. The Financial Audit Committee advised the Supervisory Board to recommend to the 63rd Regular Shareholders’ Meeting the reappointment of Eidos Deloitte Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH, Vienna as auditors for the 2007 accounts.

In keeping with section 127 of the Austrian Stock Corporations Act, the Supervisory Board accepts the management report and approves the consolidated financial statements for 2006 which have thereby been established in keeping with section 125 (2) of the Austrian Stock Corporations Act. Moreover, the Supervisory Board accepts the consolidated financial statements and the management report of the Group prepared in accordance with sections 244 and 245a of the Austrian Commercial Law Code.

The Supervisory Board also agrees to the distribution of profit as proposed by the Management Board. Accordingly, a dividend of EUR 36,750,000.00 will be distributed from the recognized net profit of EUR 36,774,916.69. This corresponds to EUR 10.00 per no-par share. The remaining profit of EUR 24,916.69 will be carried forward.

The Supervisory Board follows the advice of the Financial Audit Committee and will recommend to the 63rd Regular Shareholders' Meeting to appoint Eidos Deloitte Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH, Vienna as auditors for the 2007 accounts.

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

Vienna, 20 April 2007

Karl Schmutzer
Chairman of the Supervisory Board

Long-term Comparison

		under IFRS				under US GAAP					
		2006	2005	2004	2003	2003	2002	2001	2000	1999*	1998*
Sales and results											
Sales	EUR mill.	1,100.5	942.6	871.1	747.2	622.0	625.6	622.7	599.4	550.2	547.5
Sales outside of Austria	%	85.6	85.0	83.7	83.6	79.2	78.9	79.3	80.5	81.9	80.6
Income from operations / Operating result	EUR mill.	107.1	81.8	104.3	89.7	74.0	78.4	64.6	69.8	9.2	17.1
Financial result	EUR mill.	-8.5	-2.5	-0.8	-5.1	4.0	-6.2	0.8	-0.5	-5.3	-8.8
Income before taxes and minority interest	EUR mill.	98.6	79.3	103.5	84.6	78.0	72.1	65.5	69.3	3.9	8.3
Income taxes	EUR mill.	-10.2	-18.6	-26.0	-20.8	-17.0	-23.0	-19.9	-23.0	0.5	-2.7
Profit / loss for the year**	EUR mill.	88.4	60.7	77.5	63.7	60.5	49.2	45.6	46.7	4.3	5.6
Net income	EUR mill.	83.9	56.9	67.7	58.8	59.0	48.0	54.2	42.3	4.3	5.6
Cash flow											
Gross cash flow	EUR mill.	147.9	120.4	128.5	115.9	104.0	101.9	86.5	37.1	60.9	70.1
Gross cash flow as percent of sales	%	13.4	12.8	14.7	15.5	16.8	16.3	13.9	6.2	11.1	12.8
Net cash from operating activities	EUR mill.	146.1	124.3	95.3	127.1	109.0	127.4	81.6	28.3	61.0	50.4
Free cash flow	EUR mill.	43.7	35.1	-36.2	-11.3	-16.0	85.2	59.1	-9.4	22.4	47.8
Capital expenditure	EUR mill.	**105.3**	**82.4**	**60.9**	**139.2**	**131.0**	**42.0**	**66.7**	**41.0**	**39.0**	**38.6**
Assets structure* **											
Non-current assets	%	63.0	63.5	64.9	60.8	63.1	63.6	65.0	59.4	62.0	63.2
Current assets	%	37.0	36.5	35.1	39.2	36.9	36.4	35.0	40.6	38.0	36.8
Total assets	EUR mill.	1,061.7	1,010.1	946.1	897.1	809.0	688.7	685.9	690.5	687.7	689.3
Capital structure* **											
Adjusted Equity[1] / Equity	%	51.1	48.0	48.7	45.1	49.6	51.1	45.6	39.3	33.7	33.3
Post employment benefits	%	7.0	7.2	6.7	7.4	7.5	8.7	8.6	8.3	19.1	19.0
Liabilities (excl. post employment benefits)	%	41.9	44.8	44.5	47.5	42.9	40.2	45.8	52.4	47.2	47.7
Key data											
Return on sales (ROS)[2]	%	7.8	6.5	8.8	10.3	10.0	8.8	7.7	10.5	1.5	3.1
Return on capital employed (ROCE)[3]	%	11.9	9.0	12.2	14.3	13.7	13.1	11.7	15.5	2.0	3.9
Return on equity (ROE)	%	17.2	12.8	17.9	17.0	15.8	14.5	18.6	16.8	1.9	2.5
EBIT[4]	EUR mill.	107.1	81.8	104.3	89.7	74.0	78.4	64.6	69.8	9.	17.1
EBIT margin	%	9.7	8.7	12.0	12.0	11.9	12.5	10.4	11.6	1.7	3.1
EBITDA[5]	EUR mill.	170.1	141.6	160.4	134.8	116.0	121.4	102.0	107.6	61.3	65.6
EBITDA margin	%	15.5	15.0	18.4	18.0	18.6	19.4	16.4	18.0	11.1	12.0
Earnings per share	EUR mill.	22.8	15.5	18.4	16.0	16.2	13.1	14.8	11.5	1.2	1.5
Number of employees at year-end		**5,044**	**4,860**	**4,845**	**4,523**	**3,058**	**3,365**	**3,282**	**3,216**	**3,166**	**3,226**

[1] = Equity incl. grants less prop. deferred taxes

[2] = NOPAT (= Income from operations [EBIT] less proportional income taxes) / sales

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

[4] = Income before taxes and financial result

[5] = EBIT plus depreciation and amortization of intangible fixed assets and property, plant and equipment

[2] = NOPAT (= Income from operations [EBIT] less proportional income taxes) / sales

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

[4] = Income before taxes, minority interest and financial result

[5] = EBIT plus depreciation and amortization of intangible fixed assets and property, plant and equipment

* LUSAC Group shown as continuing operation
** Net income from continuing operations
*** Offsetting out deferred taxes in fiscal year 2001 resulted in an adjustment of the comparable figures 1998-2000.

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