75 YEARS OF INNOVATION

ANNUAL REPORT 2012 · LENZING GROUP

LENZING

LEADING FIBER INNOVATION

www.lenzing.com

Key Data of the Lenzing Group according to IFRS

Business Results

EUR mn	2010	2011	2012[1]
Sales	1,766.3	2,140.0	2,090.4
EBITDA	330.6	480.3	358.7
EBITDA margin in %	18.7	22.4	17.2
EBIT	231.9	364.0	255.0
EBIT margin in %	13.1	17.0	12.2
EBT	216.9	351.9	246.4
Tax rate in %	18.5	24.0	22.1
Profit for the year attributable to sharehol-ders of Lenzing AG	159.1	258.7	186.6

Financing Structure

EUR mn	31/12/2010	31/12/2011	31/12/2012
Cash and cash equivalents	305.6	499.6	528.8
Inventories	222.8	284.6	299.6
Receivables	254.9	312.8	365.3
Liabilities	591.8	639.5	604.4
Net financial debt[3]	307.2	153.3	346.3
Net debt[2 3]	388.5	239.3	445.5
Retained earnings	613.6	828.2	941.7
Net Gearing in %[3]	40.5	14.6	30.0

Capital Expenditure (Property, plant and equipment)

EUR mn	2010	2011	2012
Capital expenditure			
Lenzing AG	53.6	59.8	128.4
Group total	230.0	196.3	346.2
Group depreciation and amortization (without restructuring)	102.5	120.6	107.3

Cash Flow

EUR mn	2010	2011	2012
Gross cash flow[7]	282.3	435.3	248.0
Operating cash flow	294.0	309.7	209.4
Cash flow after investments	64.0	113.4	(136.7)
Cash and cash equivalents	306.6	499.6	528.8

Capital Structure

EUR mn	31/12/2010	31/12/2011	31/12/2012
Liabilities (w/o post employment benefits)[9]	1,123.3	1,206.4	1,380.3
Post employment benefits	81.3	85.9	99.2
Adjusted equity[8]	758.8	1048.1	1153.1
ROCE in %[10]	18.4	23.3	15.3
ROE in %[10]	24.90	29.6	16.4

Stock Exchange

EUR	31/12/2010	31/12/2011	31/12/2012
Common stock in mill.	26.7	27.6	27.6
Market capitalization in mn	2,238.1	1,697.6	1,811.2
Share price as at 31 Dec.	87.0	63.9	68.2
Earnings per share[4 5 8]	6.19	9.88	6.61

Production

in 1,000 tons	2010	2011	2012
Fibers (total)	653.7	705.1	778.5
Plastics[6]	35.7	39.3	39.3

1) Earnings situation 2012: all figures before restructuring

2 Including obligations for pension and severance payments

3) As of Decmeber 2012 liquid assets also include liquid bills of exchange. The prior year figure was adjusted.

4) Based on the weighted average number of shares

5) From continuing operations and discontinued operations

6) From continuing operations

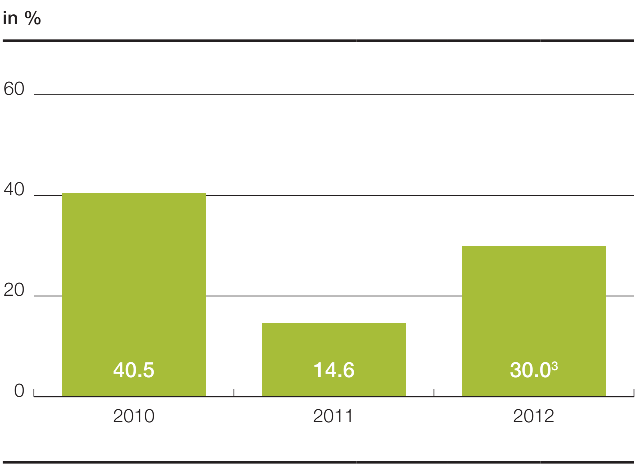
7) As of 2012 income tax is now completely included as part of gross cash flow. The prior year figure was adjusted.

8) After restructuring

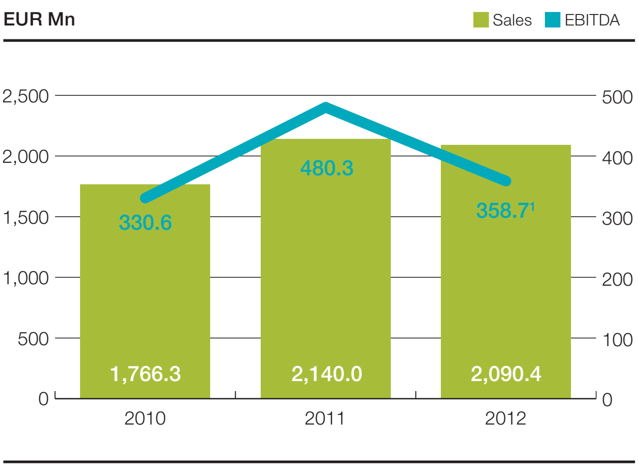
9) Excluding grants less proportinally deferred taxes

10) Calculation: please see long-term comparison in the rearpart of annual report.

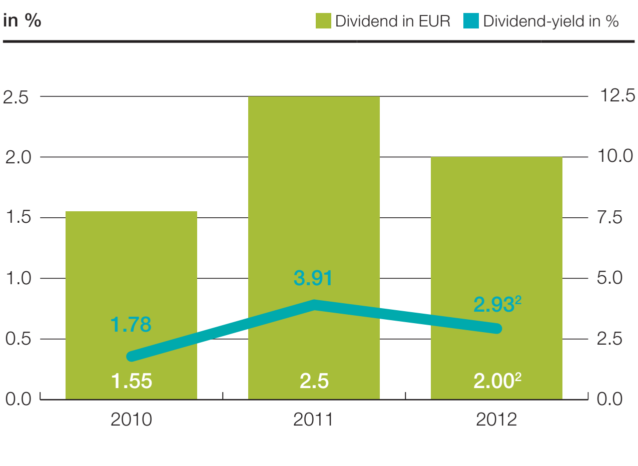
Net Gearing



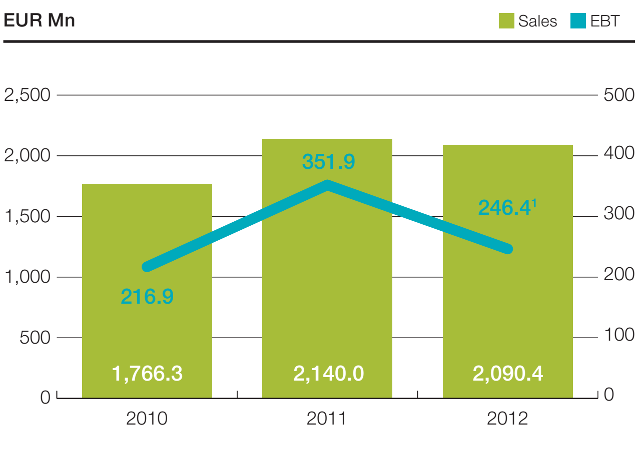
Sales compared to EBITDA



Dividend[3]



Sales compared to EBT



[1] Earnings situation 2012: all figures before restructuring

[2] Based on the proposed dividend distribution

[3] As of 2012 income tax is now completely included as part of gross cash flow. The prior year figure was adjusted.

75 YEARS OF INNOVATION

The history of Lenzing AG encompasses many innovation milestones. Pioneering achievements in pulp bleaching and environmentally compatible technologies or the development of the revolutionary lyocell fiber TENCEL® fill us Lenzingers with pride. We are celebrating our 75th anniversary in 2013 with the knowledge that Lenzing's innovative spirit will remain the driver of success over the next 75 years.

CONTENTS

EDITORIAL BY THE CHAIRMAN OF THE MANAGEMENT BOARD

With respect to the prevailing market situation, the 2012 financial year marked a return to normalcy following the boom year 2011. Nevertheless, Lenzing achieved a new record with respect to production and sales volumes, generating the second best results in the company's history.

During the 2013 financial year Lenzing will be celebrating its 75th anniversary. This event represents a good opportunity to consider the development of our Group from a long-term perspective. If one takes this into account when looking back at the 2012 financial year, then it can be considered to be a successful year against the backdrop of a market environment which has become increasingly difficult. Lenzing has had to master such a challenge several times over the past 75 years. Lenzing was able to actively shape and further develop the market for man-made cellulose fibers in 2012 as in previous years, thanks to its innovative strength, high quality products, global presence and dynamic growth. In 2012 a key rule applied once again: short-term market or cyclical fluctuations will not influence the fundamental strategy of the Lenzing Group in its role as a successful producer of cellulose fibers.

Lenzing is pursuing a growth strategy geared to the long-term expansion of its core business of man-made cellulose fibers. A series of socio-economic megatrends suggest that demand for our fibers will continue to increase in the coming years. Population growth, rising prosperity in the emerging markets and increasing demand for fibers produced from natural, renewable raw materials in an environmentally compatible manner remain the most important growth drivers of our business. The temporary weaker growth rates in the emerging markets will not alter this, as shown in 2012.

The past 2012 financial year showed a significant oversupply of cotton, the most important cellulosic fiber for textile applications. This excess supply could potentially persist due to the high inventories. However, this should not conceal the fact that in the long run there are many arguments in favor of man-made cellulose fibers. The competition for the limited fertile land under cultivation between cotton on the one hand and the food and feed industry and biofuels on the other hand continued in 2012. Man-made cellulose fibers are made of the renewable raw material wood. Wood does not compete with the cultivation of food or animal feed. Water consumption in the production of cotton is many times higher than for man-made cellulose fibers. The environmental burden of cotton production over the entire life cycle is considerably higher than for our fiber products.

Accordingly, it comes as no surprise that global production of man-made cellulose fiber rose 6.8 percent in 2012, expanding much faster than the fiber market as a whole and increasing almost twice as fast as the production volume for all man-made fibers. In 2012 the market development proved that our strategy is well secured, even in a very difficult economic environment. Lenzing is profiting from the sustainable effects of the "cellulose gap" which foresees a growing shortfall in the supply of cellulosic fibers in the future.

In 2012 we achieved three important milestones while implementing our growth strategy: the start of construction on our new TENCEL® production facility at the Lenzing site, the expansion of TENCEL® capacities in the USA and the successful start-up of the fifth production line at our Indonesian subsidiary PT. South Pacific Viscose (SPV). The fact that SPV is not only the largest fiber production plant in the Lenzing Group but also the biggest viscose factory in the world is more than just symbolic. It is the result of many years of our clearly focusing on the dynamic Asian growth market. This focus on Asia does not preclude us from continuing to produce and market specialties and attractive niche products in the Western industrialized countries. In particular, this applies to fibers for the nonwovens sector, but also for technical applications.

We also succeeded in achieving important interim goals in 2012 designed to safeguard our pulp supply. The conversion of our pulp plant in Paskov (Czech Republic) to dissolving wood pulp production has been largely completed. Moreover, we intensified our cooperation with our longstanding partners. Our level of self-sufficiency with respect to pulp production is about 50%, and we feel well positioned thanks to the long-term supply contracts we have concluded. For this reason, taking account of the availability of a sufficient quantity of dissolving wood pulp on the world market at the present time, our short-term investment priority will be on our fiber operations. In the long-term, our objective is to reach a degree of self-sufficiency of two-thirds for pulp, depending on the cost efficiency of such plants.

On the occasion of our 75th anniversary, I would like to take this opportunity to thank all the people who have served as the basis for the success of our company. Let me begin by thanking our customers and partners. We have been working together with many of them for long years. If you look around the world, there are few companies like Lenzing where this type of cooperation goes back decades. Many of Lenzing's customers are family-owned firms whose second or third generation business owners still work together with our company. I would also like to express my thanks to all our employees – those who worked for Lenzing in the past, those who are still employed by Lenzing and above all the many "Lenzingers" who recently found their way to our company. We could not have mastered the challenges posed by the past 75 years without the "Lenzing Spirit", I mean our team spirit and unique dedication. Our thanks also go to the many executives, former board members and works council representatives, who enabled Lenzing in its present form to emerge in the first place due to their foresight, vision and ability to cooperate. Allow me to also sincerely thank all our partners in the world of politics and public administration in Austria, especially in Upper Austria, for the good spirit of cooperation and their understanding of our concerns over the past decades. These working relationships were not always easy and conflict-free. I am well aware of the fact that as a large company in the chemical and pulp industry we have demanded a great deal of attention over all these years. Finally, I would like to thank our core shareholder, the B & C Group as well as the many shareholders, investors and lenders involved in our company. The high level of confidence in our company which they have all displayed serves as the basis for a successful future, and enables Lenzing to determinedly and sustainably implement its long-term strategy.

Yours,

Peter Untersperger

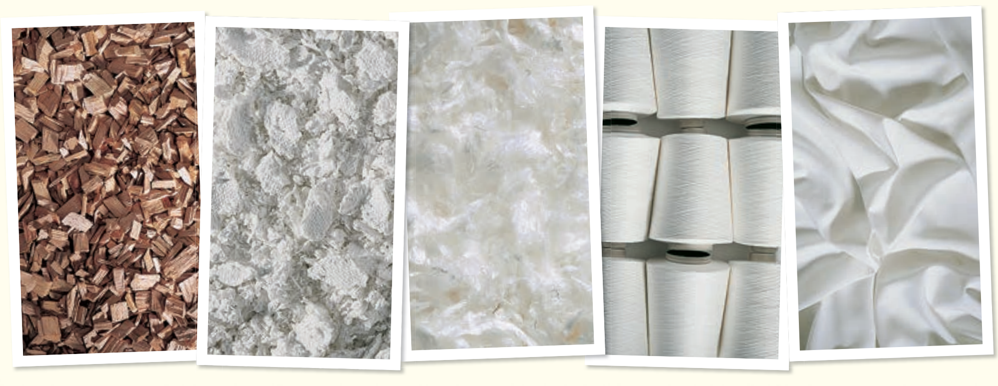
THE LENZING GROUP

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

The Lenzing Group is an international, publicly listed group of companies with headquarters in Austria, production sites in all major markets as well as a worldwide network of sales and marketing offices. Lenzing supplies the global textile and nonwovens industry with high-quality man-made cellulose fibers and is the leading supplier in many business-to-business markets. The portfolio ranges from dissolving pulp, standard and specialty cellulose fibers to high-quality plastic polymer products and engineering services.

Lenzing quality and innovative strength set global standards for man-made cellulose fibers. With 75 years of experience in fiber production, the Lenzing Group is the only company worldwide combining the manufacturing of all three man-made cellulose fiber generations on a large industrial scale under one roof – from the classic viscose to modal and lyocell (TENCEL®) fibers. The success of the Lenzing Group is based on a unique combination of consistent customer orientation together with its leadership in innovation, technology and quality.

Our successful specialization strategy and an outstanding cost position are the basis for our economic strength. Lenzing is committed to the principle of sustainable management and very high environmental standards.



WOOD PULP FIBERS YARN END PRODUCT

LENZING FIBERS ARE MAN-MADE CELLULOSE FIBERS: THEY ARE MADE FROM THE NATURAL RAW MATERIAL WOOD WHICH CONTAINS ABOUT FORTY PERCENT CELLULOSE. THE NATURAL ORIGIN CONTRIBUTES TO THE FIBER'S EXCELLENT PROPERTIES SUCH AS ABSORBENCY AND MOISTURE MANAGEMENT, THE INDUSTRIAL PRODUCTION PROCESS PROVIDES PURITY AND CLEARLY DEFINED, UNIFORM QUALITY.

THE MANAGEMENT BOARD OF THE LENZING GROUP

Responsibilities

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

SEGMENTS OF THE LENZING GROUP

Segment Fibers

Business Unit Textile Fibers

As a fiber manufacturer Lenzing is at the beginning of the textile value chain. The Business Unit Textile Fibers with its global marketing network covers the entire textile supply chain until the decision makers in the retail business and the producer of brand name products. A key strength of this business unit is the competent customer service and support along the entire value chain provided by a global service network of fiber and textile experts.

Lenzing's innovative edge ensures that the specialty fibers manufactured by Lenzing are used in almost all segments of the textile industry, ranging from lingerie to firefighting garments. The pleasant wearing properties and the outstanding moisture management as well as the environmentally compatible production make the fibers especially suited for close-to-the skin applications and demanding consumers.

Head of Business Unit
Dieter Eichinger

Business Unit Nonwoven Fibers

In contrast to the textile products made of Lenzing fibers (where the fibers are spun to make yarns and then woven or knitted into fabrics), nonwoven products are made of fibers which are processed in one production step on the basis of various technologies (e.g. hydroentanglement and airlaid technology) into fleece-like materials.

Fibers of the Business Unit Nonwoven Fibers are suitable for highly sensitive applications due to their purity and natural absorbency. These include wipes as well as hygienic and medical products but also technical and industrial areas of application. Environmentally conscious customers and consumers highly value the biodegradability of Lenzing Viscose® and TENCEL®.

Head of Business Unit
Wolfgang Plasser

Business Unit Pulp

The Business Unit Pulp in its role as the global technology leader in applying the magnesium-sulfite pulping process is a core part of the Lenzing Group bundling its know-how in the manufacturing of pulp. A unique and highly specialized innovation department cooperating with international universities and specialist institutes is the basis for the globally recognized competence of the Lenzing Group in pulp production.

Lenzing produces pulp at two sites: in Lenzing, Austria and in Paskov, Czech Republic. Major competitive advantages arise from the fully integrated production at the Lenzing site. The active marketing of wood co-products (acetic acid, furfural, magnesium lignin sulfonate) is part and parcel of the Business Unit Pulp along with its main responsibility of ensuring a secure, long-term and cost-optimized supply of the company with high quality pulp.

Head of Business Unit
Wilhelm Feilmair

Business Unit Energy

The Business Unit Energy is responsible for the conceptual development of energy supply systems, and thus ensures the optimal provision of electricity, process water, steam and cold to all production sites of the Lenzing Group.

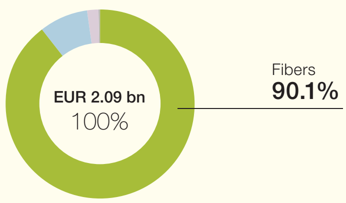
All manufacturing facilities of the Lenzing Group can rely on a secure energy supply provided at a high technical level. In particular, the large fiber production sites have highly efficient power generation plants at their disposal, or work closely together with local energy producers. The sites feature combined heat and power plants which ensure a high energetic use of the fuels.

Head of Business Unit
Gottfried Rosenauer

Segment Fibers – Key figures (EUR mn)

	2012	2011
Sales*	1,883.0	1,927.6
EBITDA	338.7	458.6
EBIT	239.5	360.9

Share of total sales



*) with external customers

Segment Plastics Products

Business Unit Plastics

The Business Unit Plastics encompasses the thermoplastics and polytetrafluoroethylene (PTFE) business areas. The thermoplastics business area of Lenzing supplies films, technical fabrics, tapes, yarns and multilayered laminates to customers from the construction materials, insulation, cable and packaging industries, for example. In the PTFE business area, Lenzing Plastics focuses on specialty products and manufactures products for medical and textile applications as well as technical applications for the cable and insulation industries.

Head of Business Unit
Johann Huber

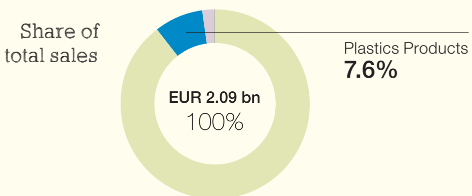
Business Unit Filaments

The Business Unit Filaments encompasses the business areas for acrylic fibers and precursors. In the acrylic fiber business area Lenzing manufactures high quality acrylic fibers for special applications such as shade systems, upholstery fabrics and car tops. The precursor business area produces precursor materials for carbon fibers used in the aviation and aerospace industries as well as for sports devices.

Head of Business Unit
Craig Barker

Segment Plastics Products – Key figures (EUR mn)

	2012	2011
Sales*	158.5	170.6
EBITDA	15.9	16.5
EBIT	10.2	-3.5



Segment Engineering

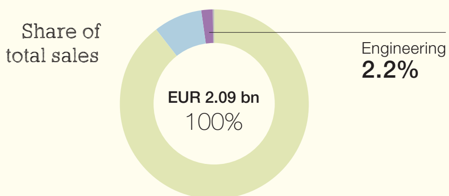
Business Unit Engineering

The Business Unit Engineering (Lenzing Technik) is the technical competence center of the Lenzing Group. Its know-how makes a decisive contribution to the excellence of Lenzing's fiber production. The headquarters are located in Lenzing in Austria. In Nanjing (China), Lenzing Technik also operates a fully-owned subsidiary, Lenzing Engineering & Technical Services (Nanjing) Co., Ltd., which was established at the end of 2010. The Business Unit Engineering offers complete customized solutions to meet diverse requirements, both within the Lenzing Group as well as on behalf of customers.

Head of Business Unit
Herbert Hummer

Segment Engineering – Key figures (EUR mn)

	2012	2011
Sales*	47.1	40.4
EBITDA	10.2	9.0
EBIT	8.5	7.5



*) with external customers

PRODUCTS OF THE LENZING GROUP

Segment Fibers

The Lenzing Group is the global leader in the production and marketing of man-made cellulose fibers for the textile and nonwovens industry.

TENCEL®

TENCEL® is produced using the lyocell process, which won the European Award for the Environment from the European Union as an environmentally friendly technology. Unique physical properties such as tenacity (especially when wet), moisture management and pleasantness to the skin make TENCEL® an appealing material for a wide range of uses.

Uses of TENCEL® in textiles

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

Uses of TENCEL® in nonwovens

- Wipes for baby care, cosmetics and household use and for industrial applications
- Uses in female hygiene (panty liners, sanitary pads)
- Medical wound pads, surgical swabs and components for surgical outer garments in the medical field
- Various technical applications

TENCEL®

Lenzing Viscose®

With its 75 years of experience in producing viscose fibers, Lenzing sets the international quality standards in the industry for this product. Lenzing Viscose® is considered a premium product on the world market and is typically used in ladies' outer garments, such as elegantly flowing printed dresses. Because of its purity, pleasantness to the skin and natural absorbency, Lenzing Viscose® is an outstanding choice for sensitive hygiene applications.

Uses of Lenzing Viscose® in textiles

- Woven and knit garments (blouses, dresses, tops)

Uses of Lenzing Viscose® in nonwovens

- Wipes for baby care, cosmetics and household use and for industrial applications
- Wound dressings, surgical swabs and components for outer garments for medical surgery
- Tampons in the hygiene segment

LENZING Viscose®

Lenzing Modal®

Lenzing Modal® is manufactured from the natural raw material beech wood at the Lenzing facility for specialty products utilizing unique integrated process management. Besides being especially soft and pleasant to the skin, the fibers are known for their luster and brilliant colors. The lasting softness plus their high degree of absorbency lend them excellent traits and render them the ideal material for blending with cotton.

Uses of Lenzing Modal® in textiles

- Homeware
- Fashion knitwear
- Underwear and socks
- Terry products

Lenzing FR®


Made from the natural raw material wood, this fiber offers protection from heat in a variety of work areas. With its extraordinary characteristics with respect to heat insulation and moisture management, Lenzing FR® reduces the risk of heat stress or heatstroke and increases protection from first- to third-degree burns.

Uses of Lenzing FR® in textiles

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

PRODUCTS OF THE LENZING GROUP

Segment Plastics Products

Business Unit Plastics

Thermoplastics:

Production of films, fabrics, tapes and multilayer laminates

Areas of application

- Construction materials
- Cables
- Insulation
- Packaging material

Polytetrafluoroethylene (PTFE):

Production of special yarns and fibers from high-tech PTFE for a broad range of applications

Areas of application

- Medical technology
- Textile architecture
- Hot gas filtration

Business Unit Filaments

Acrylic fibers:

Special homopolymeric and copolymeric acrylic fibers

Areas of application

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

Precursor:

Precursor for carbon fiber production

Areas of application

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

Segment Engineering

Business Unit Engineering

The Segment Engineering consists of Lenzing Technik GmbH and its subsidiary Lenzing Engineering & Technical Services (Nanjing) Co., Ltd. The two companies together employ a total of about 710 employees and implement projects, supply plant and equipment and provide services around the world in the following areas:

Engineering and Contracting:

- Pulp technology
- Fiber and environmental technology
- Filtration and separation

Industrial plant construction and services:

- Plant construction and mechanical engineering
- Mechanical construction
- Metal sheet technology
- Industrial services

Automation and Mechatronics:

- Process automation
- Robotics
- Mechatronics

THE PRODUCTION SITES OF THE LENZING GROUP

Viscose production sites[1]

Viscose capacity: 732,000 tons/year

Lenzing/AT
252,000 tons/year

Purwakarta/ID
320,000 tons/year

Nanjing/CN
160,000 tons/year

Patalganga/IN
in preparation

TENCEL® production sites[1]

TENCEL® capacity: 155,000 tons/year

Mobile/USA
50,000 tons/year

Grimsby/UK
40,000 tons/year

Heiligenkreuz/AT
65,000 tons/year

Lenzing/AT
under construction

[1] All capacities as at 31/12/2012

Pulp production sites[2]

Pulp capacity: 407,000 tons/year (dissolving pulp), 280,000 tons/year (paper pulp)

Lenzing/AT
290,000 tons/year
dissolving pulp

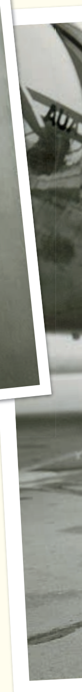
Paskov/CZ
117,000 tons/year dissolving pulp
280,000 tons/year paper pulp

[2] All capacities as at 31/12/2012; air-dry

75 YEARS OF INNOVATION AN EVENTFUL HISTORY

AROUND 1900
PAPER AND PULP FACTORY IN LENZING

THE COMPANY OPERATED UNTIL **1962** UNDER THE NAME "ZELLWOLLE LENZING AG"



1938
CONSTRUCTION BEGINS ON THE FACTORY – THE SMOKESTACK IS BEING PUTTING UP, AND THE PRODUCTION AND ADMINISTRATION BUILDINGS ARE EMERGING

The Lenzing site in Upper Austria can look back at a centuries old tradition in wood, paper and pulp production. Mills, sawmills and paper producers have been settling down and setting up operations along the Ager River since the 17th century.

The industrialist Emil Hamburger built a paper and pulp plant at the end of the 19th century. In 1935/36 ownership was transferred to the Bunzl Holding, which was the most important European paper and pulp group at that time. The site was expanded, and pulp manufacturing was upgraded to reflect the latest technological developments.

The founding of "Zellwolle Lenzing" took place in 1938 after the German army marched into Austria on orders given by the new National Socialist rulers. The company was a majority-owned subsidiary of Thüringischen Zellwolle AG, one of the many new construction projects for producing viscose initiated by the NS regime. The German Reich wanted to become independent of cotton imports by promoting the production of chemical fibers. The Lenzing paper and pulp plant was forcefully expropriated ("Aryanized") in 1938, and ownership was put in the hands of Thüringischen Zellwolle AG, which in turn used the pulp in a new fiber plant for which construction began on July 1, 1938.

Production commenced in September 1939. In 1940 a nominal capacity of 40 tons per day was reached. Later the factory was expanded to enable a daily production of 90 tons, and in 1943 the highest ever production volume up until that time was achieved, namely 27,000 tons per year. Inhuman working conditions and the deployment of forced

*) These dark years in the company's history have been comprehensively reviewed, reappraised and documented. In the year 2010 the most extensive piece of research work was published, namely, "Lenzing – Anatomy of the Founding of an Industry in the Third Reich" written by Prof. Roman Sandgruber. This was followed by the diploma thesis "Economic History of Lenzing AG from 1949 to 1980" of Franz Enhuber, a further overview of the company's history in a scientific format.

1968
THE ONE MILLIONTH
TON IS PRODUCED

1965
MARKET LAUNCH OF
MODAL FIBERS

BEGINNING OF THE 1970s
THE LENZING SITE GROWS

laborers characterized production operations. At a later date an outpost of the concentration camp in Mauthausen for women was established near the village of Lenzing. The concentration camp prisoners were deployed for production purposes. Many of them lost their lives in the process.* Fiber production was terminated in 1944 due to a lack of raw materials. In the final days of the war, resistance groups succeeded in preventing the NS regime from carrying out its intention to blow up the entire plant.

Following the end of World War II, public authorities were given responsibility for managing the plant, and production was ramped up once again. The financing banks Länderbank, Creditanstalt und Oberbank assumed a majority of the shares. The paper and pulp factory was restituted to the Bunzl family.

At the beginning of the 1950s the plant achieved an annual production of about 25,000 tons again, which was continually increased to 50,000 tons at the beginning of the 1960s. This was made possible particularly by improving the spinning technology, which was followed by the simplification and automation of work processes. As a result, Lenzing was able to keep pace with the intensive price competition prevailing at that time.

Construction work on a new research building started in the year 1963. Soon more than 100 people were employed in carrying out research and development. Lenzing began working on developing a new cellulose fiber, which was designed to display a greater resistance to moisture than standard viscose fibers. Production of a high wet modulus viscose fiber, or today's Lenzing Modal® fiber, began in 1965.

In the year 1969 the former "Chemiefaser Lenzing AG" purchased the neighboring paper and pulp factory. This step intensified the longstanding cooperation of these companies. The integration of pulp and fiber production was to become a decisive success factor in the following decades.

75 YEARS OF INNOVATION AN EVENTFUL HISTORY

MIDDLE OF THE 1980s
MARKETING LAUNCH OF CO-PRODUCTS SUCH AS ACETIC ACID DERIVED FROM PULP PRODUCTION

1976
PRODUCTION START FOR FLAME RESISTANT VISCOSE FIBERS: LENZING FR®

STARTING 1975
EXTENSIVE INVESTMENTS IN ENVIRONMENTAL PROTECTION

Following the necessary development work, the production of flame-resistant Lenzing fibers began in 1976. Originally conceived for upholstery fabrics, the fibers were later used as the basis for entering the market for protective clothing.

Starting in the middle of the 1970s, a large part of Lenzing's research and development capacities was deployed to minimize the environmental impact of pulp and viscose production. Intensive fundamental and process research created a better understanding for complex chemical processes in the production chain. This was the prerequisite for the desired closing of chemical cycles and thus minimizing the environmentally harmful greenhouse gas emissions while simultaneously improving fiber quality. The next 15 years were devoted to a comprehensive investment and modernization program designed to safeguard the viability of the site.

In 1985 the use of elementary chlorine bleaching was terminated. In 1986 a highly efficient exhaust air purification plant was put into operation, enabling the recovery of sulfur. This was followed by various other facilities, for example to use the sludge and bark waste to generate heat and electricity. Lenzing began to develop co-products derived from the cooking liquor in the pulp production process, for example furfural and acetic acid. In 1987 Lenzing put the most efficient wastewater treatment facility in Austria into operation. Lenzing not only became the largest but also the most environmentally compatible viscose fiber plant in the world, thus setting new technological standards.

In the 1970s Lenzing already began to carry out research on alternative production technologies for man-made cellulose fibers. The first pilot plant in Lenzing for the semi-commercial production of lyocell fibers (known as TENCEL® today) was constructed in 1990. Construction on the first full-scale lyocell manufacturing plant commenced in Heiligenkreuz in 1994. The factory came on stream in 1997 and was continually expanded. In 2004 Lenzing ac-

1983
START OF SOUTH PACIFIC VISCOSE IN INDONESIA – LENZING IS A PRODUCTION PIONEER IN ASIA

1997
PRODUCTION START FOR LENZING LYOCELL IN HEILIGENKREUZ

2013
THE LARGEST AND MOST ADVANCED TENCEL® PLANT ANYWHERE IN THE WORLD IS BEING BUILT IN LENZING

1997
LYOCELL (TODAY UNDER THE BRAND NAME TENCEL®), THE THIRD GENERATION OF MAN-MADE CELLULOSE FIBERS

quired its longstanding competitors Tencel Fibers. Since then all its lyocell fibers have been marketed under the TENCEL® brand name.

The internationalization of Lenzing dates back to the 1950s. Due to its size Lenzing decided to open up new sales markets outside of Austria. Accordingly, an international network of sales offices and sales agents was established. Initially the company's sales efforts focused on Europe before the decision was made to expand to Asia.

The stake acquired by Lenzing in the Indonesian company PT. South Pacific Viscose (SPV) in 1980 made Lenzing a pioneering company in Asia. Lenzing increased its shareholding to almost 100% at a later date. Today SPV is the largest single viscose fiber plant in the world. Further stakes in foreign companies were acquired in the 1990s when Lenzing purchased shareholdings in viscose fiber and pulp producers in the USA and Brazil (both of which were later disposed of) and the founding of the Chinese subsidiary Lenzing (Nanjing) Fibers. The acquisition of Tencel also included the takeover of its production sites in Mobile, Alabama (USA) and Grimsby (Great Britain). The pulp plant Biocel Paskov (Czech Republic) was acquired in 2010.

The peripheral activities of the Lenzing Group were continually reduced due to the increasing focus on its core business of manufacturing man-made cellulose fibers. This refers to a sawmill along with Lenzing's mechanical engineering operations, parts of its plant construction business as well as a series of plastics production facilities.

Today Lenzing is a focused, globally operating company. Lenzing considers the most important success factor to be its ongoing further development of the viscose and TENCEL® technology and the continuing development of new fiber applications.


CHEMIEFASER LENZING AG

MANAGEMENT REPORT 2012

Management Report 2012

General Market Environment

Global economy[1]

The global economy proved to be weaker in 2012 than originally expected at the beginning of the year. The most recent forecast of the International Monetary Fund (IMF) predicts average global economic growth of 3.2% for the year under review, compared to 3.9% for 2011. Developments in Europe during the entire reporting year were overshadowed by the sovereign debt crisis, which resulted in budgetary consolidation and cost-cutting programs, especially in the European peripheral states. In turn, this had a dampening effect on economic growth. Domestic demand in the developing and emerging economies was also not sufficient to compensate for the downturn in demand from Europe.

The IMF predicted GDP growth of only 1.3% for the Western industrialized nations in 2012 (2011: 1.6%). Whereas the economies of the eurozone countries contracted by 0.4% in 2012, GDP in the USA expanded by 2.3%. The IMF forecasts expect economic growth to reach a level of 5.1% in the developing and emerging countries in the year 2012 (2011: 6.3%).

The IMF anticipates average global economic growth to amount to 3.5% in 2013. In contrast, GDP is anticipated to expand by 1.4% in the Western industrialized markets. The eurozone will remain the biggest problem area, with its economies expected to contract by 0.2% once again in 2013. The IMF predicts a stable development in the USA, featuring a GDP growth rate of 2.0% in 2013. The developing and emerging markets are expected to expand at a rate of 5.5% in 2013, thus continuing to serve as the growth driver of the world economy. According to the IMF forecasts, China and India will once again provide the biggest impetus to the global economy, boasting GDP growth rates of between 7% and 8%.

Global fiber market

Only slight growth in world fiber production

Against the backdrop of the highly dynamic development of fiber production volumes over the last two years, growth in world fiber production in the 2012 financial year was considerably dampened by the ongoing weak economic climate.

Initial estimates[2] conclude that the rise in world fiber production only amounted to 1.2% during the reporting year, with total volume up only slightly from 81.0 mn tons to 82.0 mn tons. This was in contrast to the 6.4% increase generated in 2011. The slight growth rate only took place in the emerging markets. However, the stagnating economies of the Western industrialized markets strongly dampened textile imports from Asia. As a result, Chinese textile and clothing exports in 2012 were up by only 2.8% to USD 254 bn, a much more moderate rate than in previous years[3] characterized by double-digit growth rates. In contrast to past years, the domestic markets in Asia could not compensate for declining export demand. On balance, this resulted in a very weak market situation in 2012 for the entire textile industry.

[1] IMF, World Economic Outlook Update, January 23, 2013 [2] Source: Lenzing Market Intelligence [3] Source: CCFEI

Decline of cotton production

Cotton production fell by only about 4.8%, from 27.3 mn tons in the previous year to 26.0 mn tons in 2012. Accordingly, cotton production in 2012 corresponded to the comparable volumes of the years 2006 and 2007. Initially, the total cotton harvest was expected to be considerably lower in 2012. In addition, the cotton selling price declined significantly again starting in the second quarter of 2012 following the record cotton prices reached during the 2011 calendar year. As a consequence the development of cotton prices has detached itself from the current price cycle of agricultural commodities.

On the other hand, cotton production in 2012 once again exceeded consumption, which in turn led to a further increase in cotton inventories. Experts estimate that cotton stocks will rise to a new record level of 16.7 mn tons after the end of the current 2012/13 cotton harvest, corresponding to a stock-to-use ratio* of 71%. According to market experts, the lion's share of the high cotton inventories is located in China.

As in previous years, wool production stagnated at an annual production volume estimated at about one million tons.

Significant rise in chemical fiber production

In spite of the restrained demand for fibers, global chemical fiber production rose once again in 2012. According to preliminary figures, it showed an increase of 4.4% to the new record production level of 54.9 mn tons, up from the prior-year figure of 52.6 mn tons. The synthetic fiber polyester, which posted growth of 4.1% in 2012, accounted for some three quarters of total chemical fiber production. The production of polyamide fibers also increased strongly by 3.8%. In contrast, the production of polypropylene stagnated and acrylic fibers were down 4.0%.

China, which manufactured close to two-thirds of all chemical fibers produced worldwide in 2012 (annual production: 35.5 mn tons), generated the biggest rise, with production up 7.6%. Chemical fiber production volumes also increased in Indonesia, the USA and Korea, in contrast to decreases reported in Taiwan, Japan and Western Europe.

Disproportionately high growth of man-made cellulose fibers

The production of man-made cellulose fibers expanded at a considerably higher rate than the global fiber market as a whole, and was disproportionately higher than the global chemical fiber industry. A new record production level of about 5 mn tons was achieved, comprising a growth rate of 6.8% from the previous year. This included 3.66 mn tons of cellulose staple fibers, a rise of 9.2% in a year-on-year comparison. New production capacities were put into operation in 2012, especially in China and Indonesia.

Falling fiber prices

The cotton price, the benchmark for the entire fiber industry, was characterized by a clear downward trend starting in the middle of 2012. The Cotton A Index started the 2012 financial year at 96.7 US cents per pound. Starting in the middle of the year, the price oscillated

*) This measured value descibes the ratio of goods on stock to actual consumption.

Management Report 2012

between US 80-85 cents per pound, and ended the year at US 83.0 cents per pound, corresponding to a drop of about 14%. The average cotton selling price of US 88.9 cents per pound was more than 40% below the prior-year level. In spite of the high cotton inventories, the average selling price for cotton in 2012 was still substantially above the all-time lows of past years, which can be attributed to a long-term structural change affecting the cotton price. A slight upward movement in prices was perceptible at the turn of the year 2013.

The Chinese government pursued a rigid protection policy in 2012 for the benefit of China's cotton production, and set selling prices at a level more than 25% higher than world market prices. In addition, China massively expanded its cotton inventories in 2012.

The considerably lower world market prices for cotton put downward pressure on all other fibers. The price for polyester staple fibers hovered at a low level throughout the entire year, and declined to 140 US cents per kilogram in June 2012, its lowest selling price for the year.

Viscose fiber prices followed the trend

Viscose staple fiber prices followed the price trend prevailing for all other fibers, but with a certain time delay. At the beginning of 2012, standard viscose staple fibers were quoted at a considerably higher level on the spot market in China, the world's largest fiber market, and declined by about 15% by the end of the year. The turn of the year 2012/13 witnessed a consolidation of the downward movement in Chinese spot market prices for viscose fibers.

Starting in the second half of 2012, viscose fibers were once again partially able to maintain their longstanding price premium of 10-15% above the corresponding cotton prices.

The significantly lower viscose fiber prices compared to the previous year against the backdrop of raw material prices which declined to a lesser extent resulted in production cutbacks and capacity under-utilization afflicting a series of Asian manufacturers. A competitor in Southern Europe completely terminated production at the turn of the year.

Development of the Lenzing Group

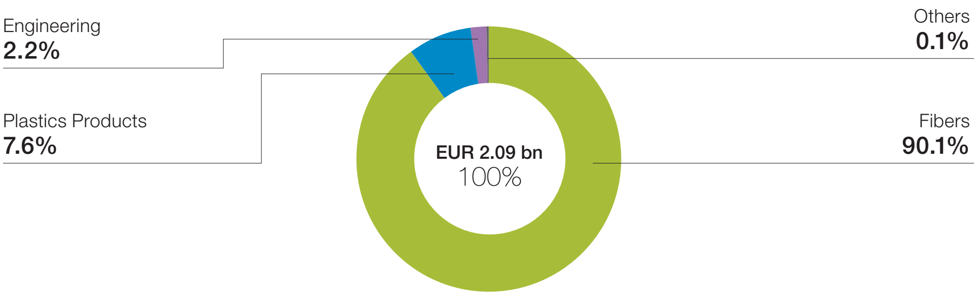
In spite of difficult market conditions in its core fiber business, Lenzing succeeded in achieving the second best business results in its history in the 2012 financial year. This can be attributed to new record fiber sales volumes and the good performance of Lenzing's specialty fibers Lenzing Modal® and TENCEL®.

Consolidated sales of the Lenzing Group were down slightly from the previous year, declining by 2.3% to EUR 2.09 bn compared to EUR 2.14 bn in 2011. In this regard, it is important to note that the further expansion of pulp production in Paskov (Czech Republic) to manufacture dissolving wood pulp for internal production purposes led to a decrease in external sales by about EUR 50 mn. Excluding this effect, consolidated sales would have matched the prior-year level. The underlying reason for stagnating sales was the significantly lower average fiber selling prices in contrast to the boom year 2011. However, this price development could be compensated by a strong rise in fiber sales volumes, which climbed by close to 14% year-on-year, from 712,000 tons to 810,000 tons.

The core Segment Fibers accounted for 90.1% of consolidated sales, whereas the two smaller segments, the Segment Plastics Products generated 7.6%, the Segment Engineering contributed 2.2% and Others accounted for 0.1% (based on external sales).

Sales by segment

Lenzing Group



Consolidated earnings before interest, tax, depreciation and amortization (EBITDA) amounted to EUR 358.7 mn*, a decline of 25.3% from the record EBITDA of EUR 480.3 mn achieved in 2011, but above the comparable level of EUR 330.6 mn generated in the year 2010. The EBITDA margin amounted to 17.2% (2011: 22.4%). The ratio of net financial debt to EBITDA was just under 1 at the reporting date, thus remaining at a very low level.

Despite the considerable increase in fiber production and sales volumes, the cost of material and other purchased services only increased by 2.2% to EUR 1.30 bn (2011: EUR 1.28 bn). These costs rose at a disproportionately low rate in relation to the corresponding rise in production and sales volumes, which is mainly due to the significant reduction in a year-on-year comparison in the costs for pulp, the most important raw material used in fiber manufacturing. The cost of material comprised 62.3% of consolidated sales in the 2012 financial year (2011: 59.6%).

*) All earnings indicators before restructuring, unless explicitly stated otherwise

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Personnel expenditures climbed by 7.2%, from EUR 287.1 mn in 2011 to EUR 307.8 mn in the 2012 financial year. This can be attributed to two factors, namely the large increase in total staff by the end of 2012 to 7,033 employees (end of 2011: 6,444) as well as the annual rise in wages and salaries. Personnel expenses comprised 14.7% of consolidated sales (2011: 13.4%).

Other operating expenses rose by 11.7% to EUR 228.6 mn (2011: EUR 204.6 mn).This increase is mainly attributable to the higher fiber shipment volumes, which in turn resulted in correspondingly higher freight costs and commissions. Amortization of intangible assets and depreciation of property, plant and equipment fell by 11.1%, declining from EUR 120.6 mn in the prior year to EUR 107.3 mn in 2012. This drop was especially due to a base effect from the previous year, when one-off impairment losses were recognized to the amount of the difference on property, plant and equipment, particularly in the Segment Plastics Products.

The consolidated earnings before interest and tax (EBIT) amounted to EUR 255.0 mn in the 2012 financial year, comprising a decline of 29.9% from the prior-year level of EUR 364.0 mn. The EBIT margin was 12.2% (17.0% in the record year 2011).

The cash outflow from restructurings totaled EUR 23.5 mn in 2012 (2011: 0), and was related to the decommissioning costs for the joint venture European Precursor (EPG) with SGL Carbon and Kelheim Fibres. Accordingly, consolidated earnings before interest, tax, depreciation and amortization (EBITDA) after restructuring amounted to EUR 352.4 mn. The EBITDA margin after restructuring costs comprised 16.9% of sales. EBIT after restructuring totaled EUR 231.5 mn, corresponding to an EBIT margin after restructuring of 11.1%.

Operating margins in the first two quarters of 2012 were significantly above the comparable margins in the third and particularly the fourth quarter, which can be attributed to the continuing decline of fiber selling prices in the course of the year. Restructuring costs only arose in the fourth quarter of 2012.

The financial result after restructuring was largely unchanged from the level of EUR -11.9 mn in the previous financial year, and amounted to EUR -12.8 mn in the 2012 financial year. The average interest rate for financial liabilities was 3.0% in 2012 (2011: 3.2%). The allocation of the profit for the year to puttable non-controlling interests after restructuring was EUR 17.3 mn in 2012 (2011: EUR -0.2 mn) and primarily entails Lenzing's share of the losses incurred by EPG, which are assigned to the joint venture partners SGL Carbon and Kelheim Fibres.

As a result of these developments, the Lenzing Group generated earnings before tax (EBT) of EUR 246.4 mn in the 2012 financial year (2011: EUR 351.9 mn). This corresponds to a decrease of 30.0% from the record results achieved in 2011, but a growth of 13.6% compared to the EBT of EUR 216.9 mn in the 2010 financial year.

The income tax after restructuring fell from EUR 84.6 mn in 2011 to EUR 55.1 mn in the year under review. The profit for the period after taxes for continuing operations totaled EUR 191.9 mn (2011: EUR 267.4 mn), which also equals the profit for the year.

The profit for the year attributable to shareholders of Lenzing AG amounted to EUR 186.6 mn (2011: EUR 258.7 mn). The profit for the year attributable to shareholders of Lenzing AG after restructuring was at EUR 175.6 mn (2011: EUR 258.7 mn), corresponding to earnings per share after restructuring of EUR 6.61 (EUR 9.88 in the record year 2011 and EUR 6.19 in the 2010 financial year).

Sustained healthy balance sheet structure

Adjusted equity of the Lenzing Group rose to EUR 1,153.1 mn at the end of 2012, an increase of 10.0% from the prior-year level of EUR 1,048.1 mn. This corresponded to an adjusted equity ratio of 43.8% of total assets (2011: 44.8%) which increased as a consequence of the record investments which were made.

Net financial debt of the Lenzing Group climbed to EUR 346.3 mn by the end of 2012 (2011: EUR 153.3 mn), which particularly reflects the extensive investment activity in the past financial year designed to expand the fiber and pulp production capacities of the Lenzing Group, as well as the record dividends and cash-effective tax payments. Net gearing of the Lenzing Group remained at a very low level of 30.0% (2011: 14.6%), which is also below the comparable figure of 40.5% in 2010.

The strategic liquidity reserve of the Lenzing Group at the reporting date of December 31, 2012 amounted to EUR 528.8 mn (end of 2011: EUR 499.6 mn). Moreover, Lenzing had additional unused lines of credit at its disposal to the amount of EUR 211 mn at the end of 2012. The high level of liquid funds ensures the implementation of the current investment program of the Lenzing Group, even in the light of a volatile capital market.

CAPEX (investments in property, plant and equipment, intangible assets and non-controlling interest) rose as planned to the record level of EUR 346.2 mn in the 2012 financial year (2011: EUR 196.3 mn). This includes the purchase of the remaining shares in the Paskov pulp plant (EUR 26.6 mn).

Lenzing's investment activity focused on the completion of the fifth production line at the Indonesian subsidiary PT. South Pacific Viscose (SPV) at the Purwakarta site, the debottlenecking program at the plant in Nanjing (China), the capacity expansion drive at the TENCEL® factory in Mobile/Alabama (USA), expansion investments at the Lenzing site as well as the commencement of construction of the new large-scale TENCEL® plant in Lenzing. Investments were also made to further remodel and upgrade the Paskov pulp plant (Czech Republic).

Segment Fibers

Lenzing's Segment Fibers achieved a new sales record in the 2012 financial year against the backdrop of a very difficult business environment. The fiber market rewarded Lenzing for its high product and service quality as well as its close cooperation with and integration in the textile chain. The successful differentiation from standard products manufactured by Asian producers enabled Lenzing to operate all its fiber production facilities at full capacity against the backdrop of a market environment characterized by a high supply and weak prices. Inventories were at a low level at the end of the year.

Sales of the specialty fibers Lenzing Modal® and TENCEL® and a gratifyingly stable nonwovens business served as the basis for a weakening of the general downward movement in prices. The specialty brands Lenzing Modal® and TENCEL® succeeded in maintaining their premium character in such a market environment in 2012, and continued to be sold at a price premium of between 40% - 60% compared to standard viscose fibers. Specialty fibers accounted for approximately 35% of fiber sales in 2012.

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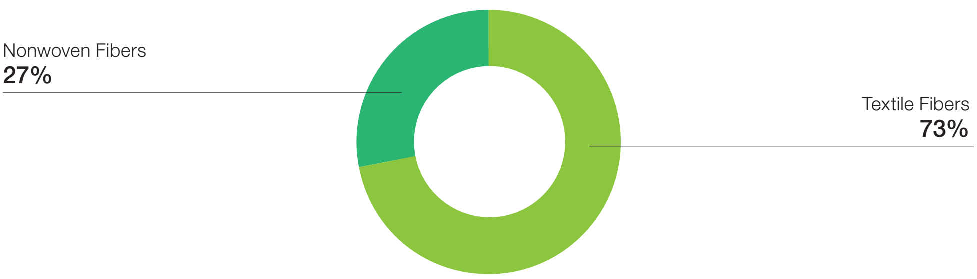
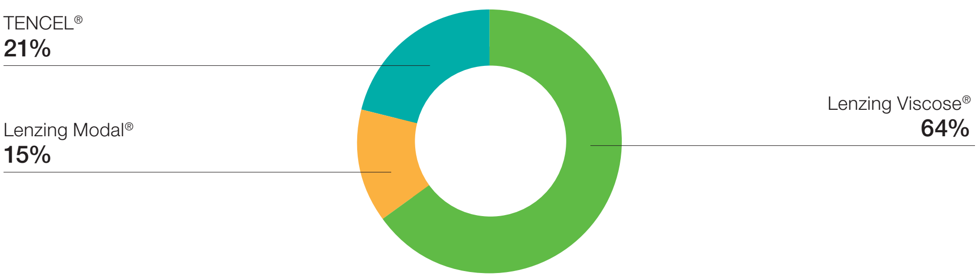
Fiber sales

By business unit



Fiber sales

By product group



However, the Lenzing Group was not immune to the overall market trend. Whereas average fiber selling prices still equaled EUR 2.03 per kilogram in the first quarter of 2012, prices fell to EUR 1.83 per kilogram in the fourth quarter of the year. In the course of the year, selling prices for Lenzing's specialty fibers Lenzing Modal® and TENCEL® also had to be continually adjusted downwards in line with the new price situation arising as a result of the significant drop in cotton prices. This was in contrast to the high chemical prices prevailing throughout the year. The price decline for dissolving wood pulp, the most important raw material used in fiber production, had a positive effect, but could not compensate for the decrease in fiber selling prices.

Sales and earnings development

Segment sales (sales proceeds from external customers and intra-group sales with other segments) in line with segment reporting of the Segment Fibers amounted to EUR 1,896.0 mn in 2012, approximately the same as the prior-year level of EUR 1,939.5 mn. Segment EBITDA fell from the record performance of EUR 458.6 mn achieved in 2011 to EUR 338.7 mn in 2012. The EBITDA margin in the Segment Fibers ended up to be 17.9% (2011: 23.6%).

Further strong rise in fiber capacities

Important milestones were achieved in 2012 with respect to Lenzing's ongoing fiber capacity expansion program.

The main event was the coming on stream of the fifth production line of the Indonesian subsidiary PT. South Pacific Viscose (SPV) at the end of October 2012. As a consequence of the additional nominal capacity of 80,000 tons of viscose fibers per year, total annual production capacity at SPV climbed to 320,000 tons. Thus, it exceeded the capacity of 252,000 tons p.a. of the viscose plant at corporate headquarters in Lenzing (Upper Austria) for the first time, making SPV the largest single viscose fiber plant in the world. In addition to the rapidly growing textile industry in Indonesia, one of the largest industrial sectors of the island state, the entire South East Asian region is supplied with high-quality fibers for textile and nonwovens use from the Purwakarta plant.

Due to a very gratifying ramp-up curve, 80% of the nominal capacity of the new production line could already be marketed two weeks after it was put into operation.

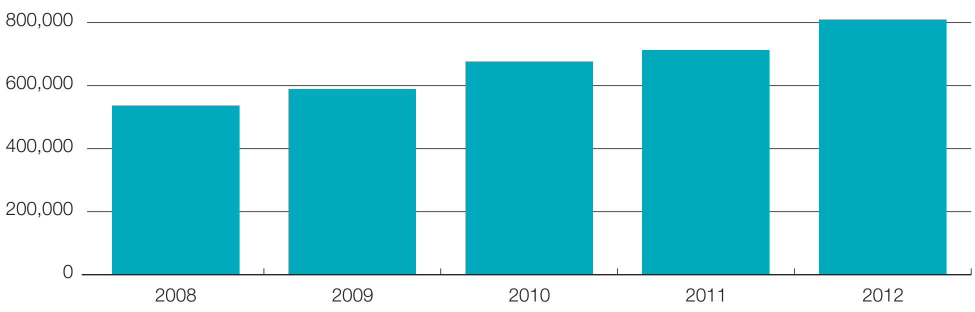
Following the coming on stream of the second expansion phase of the viscose fiber plant in Nanjing (China) initiated in the year 2011, the first half of 2012 was marked by the gradual ramping up of production at the site to reach the planned maximum volume. For the first time, nonwoven fibers were also manufactured by this facility. Additional investments of about USD 18 mn for a debottlenecking program helped raise total capacities in Nanjing to 160,000 tons p.a.

At the Mobile, Alabama (USA) plant, the expansion drive designed to boost production capacity of TENCEL® fibers from 40,000 to 50,000 tons per year was successfully concluded in the middle of the year. Production volumes were fully available starting in the fourth quarter of 2012 following a corresponding ramp up phase.

There were further delays in constructing the planned viscose plant in India due to the request on the part of public authorities for additional expert appraisals. From today's perspective, it is unrealistic to expect construction to begin before the year 2014.

Fiber sales volumes

Lenzing Group, in tons



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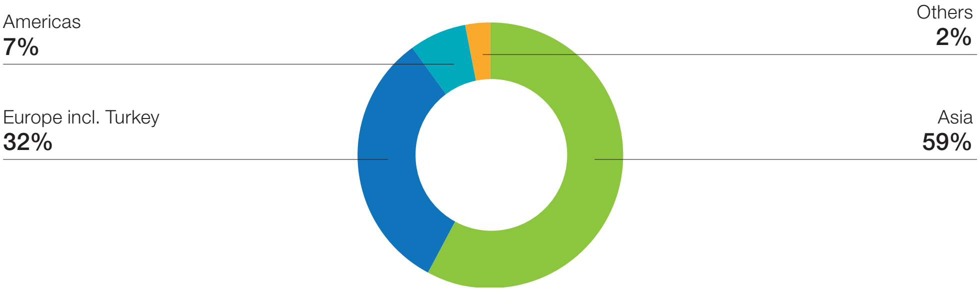
Fiber sales volumes by key market

Lenzing Group



Construction start for the new TENCEL® plant in Lenzing

The comprehensive approval and licensing procedures carried out within the context of the environmental impact assessment for construction of the first TENCEL® production plant at the Lenzing site were successfully concluded in the first half of 2012. Construction subsequently commenced on the new facility, which will feature an annual nominal capacity of 67,000 tons of TENCEL® fibers, in June 2012. Construction is scheduled to take about 24 months, entailing total investments of approximately EUR 130 mn (excl. infrastructure costs).

The new state-of-the-art TENCEL® plant reflects next generation TENCEL® technologies. The longstanding experience of the Lenzing Group in designing and operating TENCEL® facilities is reflected in the first-time realization of a plant which boasts a single production line with a nominal capacity of 67,000 tons. Thanks to the new plant concept, Lenzing will achieve lower specific operating costs, a higher level of plant safety and availability and thus important competitive advantages.

TENCEL® production at the Lenzing site will create 110 new high-quality jobs.

Business Unit Textile Fibers

In 2012 the Lenzing Group registered an excellent development in demand with respect to textile fiber volumes against the backdrop of a very difficult market environment and declining selling prices. The average fiber selling prices of the Business Unit Textile Fibers fell by 12.2% to EUR 2.01 per kilogram. Textile fiber shipment volumes increased by about 13% to a total of 572,000 tons, up from the prior-year level of 506,000 tons. The specialty fibers TENCEL® and Lenzing Modal® accounted for about 31% of business unit sales.

Selling prices for Lenzing's standard viscose fibers leveled off in the first half-year between EUR 1.72 and EUR 1.82 per kilogram, but continually dropped in the second half of the year as far as EUR 1.53 per kilogram towards the end of 2012 in spite of the good volume demand. In the second half-year the global viscose fiber market was negatively impacted by the sharp decline in viscose fiber spot prices in China.

The 2012 financial year proceeded very favorably for TENCEL® fibers used in textile applications. There was very strong demand for TENCEL® in soft denim applications, high quality women's and men's outwear as well as for sportswear and home textiles. This development served as the basis for rising prices and sales volumes in the first half of 2012. In fact, TENCEL® already achieved an unusually high price premium of up to 70% above the corresponding viscose fibers in the second quarter of the year. However, this price gap to cotton necessitated some price adjustments in the third and fourth quarters in order not to endanger the widespread use of TENCEL® in textiles. Selling prices were reduced towards the end of the year to reflect a more appropriate market price premium of between 50% and 60% compared to viscose fibers.

Lenzing Modal® performed very well in 2012, with sales volumes surpassing the 90,000 ton threshold for the first time. However, Lenzing Modal® was more strongly impacted by the decline in cotton prices than other specialty fibers produced by the Lenzing Group, which is attributable to the high share of cotton/modal blends and certain price benchmarks. For this reason, Lenzing Modal® prices (including the flame-resistant qualities of Lenzing FR®) fell in the course of the year from EUR 2.81 per kilogram in the first quarter to EUR 2.30 per kilogram in the fourth quarter. However, the 50% price premium in comparison to viscose fibers remained largely constant.

The extremely fine specialty fiber MicroModal® achieved impressive success. Demand for Lenzing Modal® was also strong for high-quality knitwear and lingerie as well as in home textiles. Due to the more restrictive public budgets at the present time (also with respect to military expenditures), sales volumes declined for the flame-resistant specialty fiber Lenzing FR® which is manufactured on the basis of modal fibers.

Lenzing seized the opportunity to reposition the Lenzing Modal® brand in 2012 as a result of the conversion to the more environmentally-friendly "Edelweiss" technology in the production of modal fibers.

From a regional perspective, Asia comprised the strongest sales market for Lenzing Modal® and TENCEL®, as in the past.

Textile fiber innovations in 2012

Spun-dyed modal fibers

One of the most important milestones achieved during the year under review with respect to product innovations in the field of textile fibers was the market launch of a new, spun-dyed modal fiber called Lenzing Modal® COLOR. The advantage of the fiber is its particular eco-friendliness. Dyeing is no longer necessary due to the fact that the color pigments are embedded directly in the fiber matrix. Steps have been taken to expand the range of colors offered for additional applications as a result of the positive customer feedback.

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Vegetable nets made of Lenzing fibers

In 2012, a new application area was opened up for packing yarns made of spun-dyed Lenzing fibers, such as for fruit and vegetable nets. These nets are biodegradable, can be disposed of in the home compost and are of 100% natural origin. They have already been used for packing onions and other vegetables by Ja! Natürlich, the organic brand of REWE International AG.

Lenzing also achieved initial successes on the marketplace with additives to building materials. In this case, TENCEL® powder is added to pasty plasters* to enable better workability as well as improved drying behavior and reduced crack formation.

Furthermore, in 2012 Lenzing acquired the contract production of the specialty fibers smartcel™ and SeaCell® for Smartfiber AG. These specialty fibers are primarily used in home textiles as well as in the wellness segment. The SeaCell® fibers contain active substances from seaweed which nurture the skin and protect against free radicals. Smartcel™ sensitive is the first antibacterial, natural fiber available on the market to which the essential trace element zinc is added, thus enabling regenerative skin care and hygiene in textiles.

Business Unit Nonwoven Fibers

The global nonwoven fiber market in 2012 was characterized by declining cotton and polyester fiber prices, lower prices for pulp and increasingly tough competition due to new capacities along the downstream value chain.

In particular, new plant capacities in Europe for spun-bonded nonwoven production, for example for wipes, led to temporary surplus capacities. In contrast, the development of the market in the USA proved to be gratifyingly stable. The Asian nonwovens market also showed a clear upward trend in 2012. Increasing prosperity, especially in China, led to a rise in nonwoven sales surpassing the comparable growth rates in the textile industry. This development also benefited the market for wipes, in which all emerging markets have a lot of catching up to do with respect to pro capital consumption.

Higher nonwoven sales volumes achieved by the Lenzing Group

The nonwovens business of the Lenzing Group in 2012 featured increasing sales volumes which climbed by about 15% from the comparable level in the previous year, rising from approximately 206,000 tons to about 238,000 tons in 2012. This increase was the consequence of capacity expansion in China and Indonesia and the resulting higher sales volumes in North America.

Average fiber selling prices were EUR 1.83 per kilogram, down by about 10% from the record year 2011 (EUR 2.04 per kilogram). However, nonwoven prices developed more favorably for Lenzing than prices in the more cyclically-dependent textile sector. One key reason is the growing share of TENCEL® fibers in the nonwovens market, which achieved a gratifying price premium on the marketplace, especially in the first three quarters of 2012.

*) Pasty plasters (synthetic resin plasters) do not contain any cement as a binding agent, and are preferably used in heat insulation composite systems.

First hydrophobic cellulose fiber

In terms of product innovations, the highlight of the year 2012 for the Business Unit Nonwoven Fibers was the market launch of the new fiber TENCEL® Biosoft. For the first time, a hydrophobic* cellulose fiber was developed for completely new fields of application previously reserved to hydrophobic synthetic fibers such as polyester. Ideal applications for TENCEL® Biosoft are hygiene products such as sanitary pads and panty liners as well as incontinence pads. The new fiber is also predestined for use in wipes thanks to its softness and adaptable lotion management.

TENCEL® microfibers also comprised an important area of research in 2012. These ultrafine fibers are required in order to be able to manufacture thin insulation layers made of paper. Another interesting area of application, amongst others, is in the production of electrical insulation paper for battery separators, for example for the purposes of e-mobility and electronics.

A special type of carbon is produced based on the carbonization of TENCEL® powder. The applied technology is based on a combination of Lenzing's TENCEL® fibers and the technology provided by the business partner NanoCarbons LLC. After extensive research, Lenzing constructed a new pilot production facility to take the technology forward.

The jointly developed carbons should deliver optimal performance in the area of energy storage. It is believed that these new carbons will accelerate the development of the already rapid growth in uses of electrical storage devices such as double layer capacitors (also known as ultra capacitors or super capacitors). These high performance capacitors are being increasingly used in hybrid vehicles as well as with stop-start systems, uninterruptable power supplies and wind turbine blade orientation.

Business Unit Pulp

Dissolving wood pulp is the most important raw material used in the production of man-made cellulose fibers, and is derived from the renewable raw material wood. The main responsibility of the Business Unit Pulp is to provide a sufficient supply of suitable qualities of pulp for the fiber production plants of the Lenzing Group. In this regard, not only economic but also ecological considerations comprise the basis for decision making.

The reduced demand for paper led several pulp producers to convert their production lines to dissolving wood pulp. As a consequence, overcapacities for dissolving wood pulp resulted in a sharp drop in prices. The average selling price for dissolving wood pulp was down 43% compared to 2011, falling to USD 1,060 per ton of air-dried pulp (2011: USD 1,870).

The Lenzing Group operates its own pulp production plants at two sites, in Lenzing (Austria) and in Paskov (Czech Republic). In the fourth quarter of 2012, Lenzing increased its shareholding in Biocel Paskov a.s. from 75% to 100%.

The Lenzing Group's own production of dissolving wood pulp was expanded once again in 2012. As a result, in spite of rising fiber production capacities, Lenzing was able to maintain its level of self-sufficiency with pulp at about 50%.

*) Hydrophobic substances are those which do not mix with water.

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The fiber production facilities at the non-integrated sites are primarily provided with pulp on the basis of long-term supply contracts. Additional multi-year supply contracts were concluded with large pulp producers in 2012.

Pulp production in Lenzing (Austria) and Paskov (Czech Republic)

The annual production volume of 290,000 tons of pulp at the Lenzing site served as the basis for a physical full integration of pulp manufacturing in Lenzing.

The remodeling and expansion program in Paskov proceeded on schedule. 255,000 tons of pulp were already produced in 2012, about half of which was dissolving wood pulp.

Wood supply

In 2012, the wood supply at the Lenzing site was once again secured by a corresponding supply chain management and long-term delivery contracts. The cooperation with the most important wood suppliers in Austria and neighboring countries was further expanded. The procurement of wood across large areas and the longstanding cooperation with key suppliers proved its value, especially in the light of the strong demand for wood on the part of industrial customers and the bioenergy sector.

In spite of declining domestic supply and rising wood imports, the wood supply at the Paskov site was secured at constant prices. Lower wood consumption combined with increased deliveries resulted in relatively high winter stockpiling. This turned out to be an advantage for the Paskov plant due to the fact that an important lessee of the Czech State Forests filed for bankruptcy, and it could take several months until a new license for logging is awarded to another company. The Paskov pulp plant is well able to cushion this short-term supply shortfall thanks to its wood inventory on hand.

Co-products

The by-products (co-products) arising from fiber and pulp production are marketed by the division Lenzing Co-Products (Business Unit Pulp). The high-quality co-products are further processed by customers in the food and animal feed industries as well as the pharmaceutical, detergent and construction industries. In the year 2012 the Lenzing site launched a new co-product on the marketplace i.e. Soda Ash Dense derived from soda ash.

Business Unit Energy

The Business Unit Energy is responsible for ensuring the optimal availability of electricity, process water, steam and cooling energy to all global production sites. It is also responsible for the conceptual development of the energy supply facilities of the Lenzing Group. Due to the fact that pulp and fiber production are energy-intensive processes the importance of the Business Unit Energy is increasing with respect to ensuring a sufficient energy supply and in relation to operating costs.

In the last three years a total of EUR 128 mn has been invested in energy projects in order to meet the energy-related challenges at a high technological level. This takes the strategic energy-related challenges of the Lenzing Group into account at the highest technologcal level.

Whereas the European electricity market in 2012 was characterized by decreasing spot and forward market prices, natural gas prices increased slightly. Crude oil prices stabilized at a high level during the reporting year. This development hardly had an impact on the development of the Lenzing Group's business, considering that the lion's share of the required energy is procured on the basis of fixed-price supply contracts.

During the year under review, projects designed to further improve the energy supply at the Lenzing site were continuously being implemented. A boiler was equipped with a larger fabric filter, enabling it to be more effectively used for low calorific fuels. An additional transformer was purchased in order to safeguard the electricity supply from the public power grid.

In Heiligenkreuz the procurement of steam from the biomass power plant was optimized in cooperation with the local utility company.

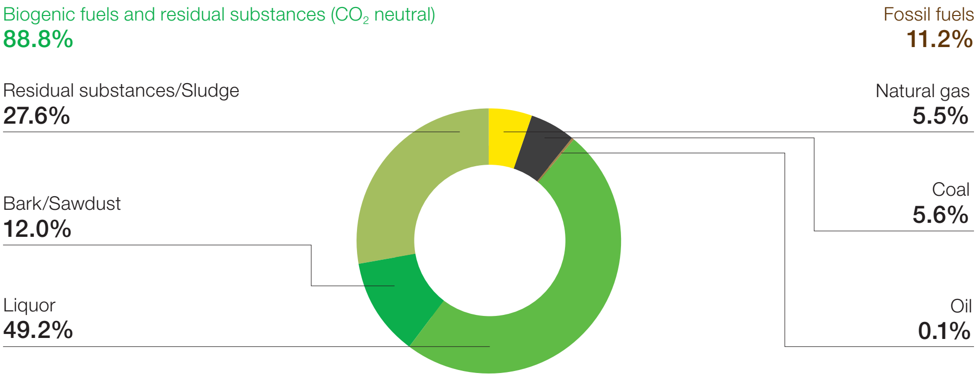
The Paskov pulp plant pressed ahead with the implementation of various energy-related projects as part of its drive to convert and upgrade the facility. Accordingly, work on the evaporation plant for the bleaching plant wastewater and feedwater treatment was concluded and the facilities successfully put into operation in 2012.

Three gas-fired flame-tube boilers were installed at the Nanjing site during the year under review as a means of generating process heat.

A new, multi-year contract for the supply of heat, electrical energy and other process utilities was concluded in 2012 for the Grimsby plant. The new partner took over all the facilities operated by the previous service provider, and will upgrade them to incorporate state-of-the-art technologies.

Fuel mix at the Lenzing Site*

Annual fuel input (2012): 13,422,358 GJ



*) incl. RVL

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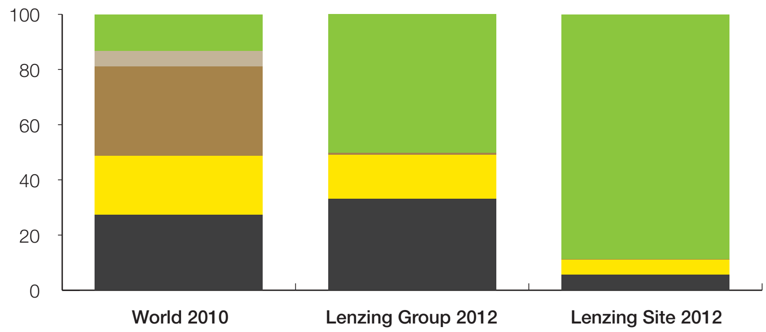
Comparison of energy sources

Global, Lenzing Group and Lenzing Site*

Sources:
World Energy Outlook 2012,
Lenzing AG



	World 2010	Lenzing Group 2012	Lenzing Site 2012
Biogenic	13.2%	50.3%	88.8%
Nuclear	5.6%	0.0%	0.0%
Oil	32.3%	0.7%	0.1%
Gas	21.5%	16.0%	5.5%
Coal	27.3%	33.1%	5.6%

*) incl. RVL

Outlook Segment Fibers

The Lenzing Group registered good volume demand for its fiber products in the first weeks of the year 2013, both with respect to textile as well as nonwoven fibers. Lenzing's fiber production capacities were operating at full capacity. However, prices continued to be at an unsatisfactory level. Lenzing continues to assume that its fiber production capacities will be fully utilized for the rest of the year. This particularly applies to the new Lenzing capacities in Indonesia (about 80,000 tons of viscose fibers p.a.) and in the USA (about 10,000 tons of TENCEL® fibers p.a.) which came on stream in 2012 and will contribute to further sales growth for an entire financial year for the first time in 2013.

In terms of costs, pulp prices are expected to remain largely unchanged, and chemical prices are not anticipated to ease up. One of Lenzing's marketing priorities for its specialty fibers in the textile segment will be on emphasizing the technical advantages of processing TENCEL®.

A low price level for dissolving wood pulp is expected to prevail on the global market in 2013 and also on a medium-term basis as a consequence of existing overcapacity.

The supply of pulp to the Lenzing Group remains secured in the medium-term. The level of self-sufficiency in the Lenzing Group will be further enhanced with the complete conversion in Paskov to manufacturing dissolving wood pulp. In the course of the year 2013, pulp production at the Paskov plant will also be converted from elementary chlorine free bleaching (ECF) to total chlorine free bleaching (TCF). The additional pulp production capacities in Lenzing and Paskov as well as long-term delivery contracts ensure the availability of the pulp required for the planned increases in fiber production volumes.

Moreover, a sufficient supply of wood for both of Lenzing's pulp plants has been secured for 2013 and beyond.

The Lenzing Group anticipates stagnating or slightly higher prices for crude oil and natural gas in 2013. In contrast, Lenzing assumes that electricity prices will continue to decline.

The ongoing energy-related expansion and optimization projects being implemented throughout the Group will be continued in the current 2013 financial year. It is planned to refit and upgrade a superheater by one of the boilers at the Lenzing site, which will increase the efficiency of the boiler.

A new liquor-fired boiler, soda boiler and condensation turbine will be put into operation at the Paskov site at the beginning of 2013.

Segment Plastics Products

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

The Segment Plastics Products showed a satisfactory development in the reporting year 2012. Lenzing profited from a good level of demand, especially in the thermoplastics business area. On balance, segment shipment volumes reached a new record high in 2012. The Business Unit Filaments fell short of expectations. The business with acrylic fibers for products such as awnings and tops for convertibles proved to be highly cyclical.

Raw material prices in the Segment Plastics Products showed a volatile development during the 2012 financial year. A price rally at the beginning of the year was followed by a downward movement. After renewed price increases, raw material prices declined once again. Prices for thermoplastic raw materials stabilized in the second half of 2012. The price situation for polytetrafluoroethylene (PTFE) eased on the heels of the supply shortfalls experienced in the previous year, whereas powder prices hovered at a lower level again.

Segment sales (revenue from external customers and intra-group sales with other segments) amounted to EUR 159.9 mn, compared to the prior-year level of EUR 172.6 mn. Segment EBITDA totaled EUR 15.9 mn, down from EUR 16.5 mn in 2011.

The Segment Plastics Products employed a total of 459 people (incl. trainees) as at December 31, 2012 (2011: 454).

Business Unit Plastics

The Business Unit Plastics encompasses the Thermoplastics and Polytetrafluoroethylene (PTFE) business divisions. The Thermoplastics Division consists of the construction, insulation, cable and packaging segments.

In the construction and insulation segment, the business unit manufactures roof underlinings, wind and vapor barriers as well as laminates to protect insulating materials. Sales in these construction-related areas continued to develop well due to the extensive restoration and renovation work subsidized by the governments of many European countries. Shipment volumes of the construction segment of Lenzing's Business Unit Plastics reached a new record level in 2012.

The packaging segment once again operated in a buyer's market in 2012 due to surplus production capacities. In spite of a good level of demand, prices remained at a low level. Nevertheless, market successes were achieved with specialty products such as biodegradable tapes. Demand on the part of the cable industry was below target throughout the entire year under review.

The PTFE business division is divided into two segments, namely technical applications as well as medical and textile applications. In 2012 the priority at PTFE was on producing samples for the testing of yarns designed for surgical purposes. An important milestone was reached in 2012 thanks to the successful certification of Lenzing PROFILEN® yarns for medical uses. In the field of technical applications, the business with yarns for compression packings showed a consistently good performance. In contrast, PTFE staple fibers for use in filtration media once again suffered from strong price pressure due to lower priced offers made by Asian competitors.

The operating results before consolidation effects of the Business Unit Plastics in the year 2012 showed sales of EUR 109.4 mn and EBITDA of EUR 11.2 mn.

Outlook Business Unit Plastics

Lenzing continues to expect a very good development in the construction and insulation segment of the Business Unit Plastics in 2013. Demand is being driven by the growing need for housing as well as the willingness to carry out the thermal renovation of buildings due to high energy prices but also ecological considerations. One focal point of the business unit's activities will be on developing new products and thus expanding its product portfolio. In the PTFE sector, the certification of yarns for medical applications should provide a positive impetus to business development.

Product and process improvements will also be an important priority of the Business Unit Plastics in 2013 in order to remain competitive vis-à-vis competitors from countries with significantly lower production costs.

Business Unit Filaments

The Business Unit Filaments encompasses the business areas for acrylic fibers (marketed under the DOLAN® brand name) and precursors for carbon fibers. In its acrylic fiber business area, Lenzing manufactures high quality acrylic fibers for special applications such as awnings, convertible tops and filtration. The precursor business area manufactures precursor materials for carbon fiber production.

The acrylic fiber market developed weakly throughout 2012. In particular, sales in Southern Europe remained at a low level. In contrast, Lenzing succeeded in expanding its market share in the revitalized American market. Whereas sales of awnings and outdoor applications were below target, there was a slight upturn in the market for car tops towards the end of the reporting year.

European Precursor (EPG), the joint venture with SGL Carbon and Kelheim Fibres, suffered from a slump in sales in 2012 due to the collapse in demand from the wind turbine sector. The business partners decided to liquidate the company due to the lack of future sales potential.

Outlook Business Unit Filaments

A sustainable recovery in the U.S. real estate sector should lead to improved demand for special acrylic fibers for outdoor applications. In contrast, an upswing on the European market first seems like a realistic possibility in 2014, when economic experts anticipate an economic recovery in the eurozone.

Segment Engineering

The Segment Engineering encompasses Lenzing Technik GmbH and its subsidiaries Lenzing Engineering & Technical Services (Nanjing) Co., Ltd. and Leno GmbH. Lenzing Technik carries out projects, supplies plants and equipment and services around the world in the fields of engineering and contracting, mechanical construction and industrial services as well as automation and mechatronics.

The Segment Engineering profited from the positive mood in the capital goods market in 2012, and significantly increased sales and earnings. Lenzing Technik equally took advantage of the extensive investment activity within the Lenzing Group as well as growing demand on the part of external customers. Capacity utilization was very good throughout the year across all segments.

In 2012 the Segment Engineering generated total sales of EUR 121.8 mn, compared to EUR 107.0 mn in 2011. Of this amount, approximately 39% or EUR 47.1 mn (2011: EUR 40.4 mn) can be attributed to external customers outside of the Lenzing Group. Segment EBITDA amounted to EUR 10.2 mn (2011: EUR 9.0 mn). A total of 711 people (incl. trainees) were employed by the Segment Engineering as at December 31, 2012 (2011: 690). Temporary staff was also hired in 2012 in order to provide sufficient manpower for peak order times, as in previous years.

Engineering und Contracting

The Engineering and Contracting business area is divided into three divisions: fiber and environmental technology, pulp technology as well as filtration and separation technology. Lenzing Technik offers engineering and project services as well as mechanical and special machine construction for industrial customers.

The fiber technology product group is responsible, among other things, for the conceptual design of the Lenzing Group's fiber production plants, and thus makes an important contribution to safeguarding the innovation and market leadership enjoyed by the Lenzing Group in the fiber segment. The environmental technology product group is concerned with biological

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reduction processes and the elimination of greenhouse gas emissions in industrial and municipal applications.

The pulp technology division carries out consulting and engineering projects for the pulp industry on a global basis. In the past financial year this division made a major know-how contribution to the conversion of the Lenzing Group's pulp plant in Paskov (Czech Republic).

In the year 2012 the filtration and separation technology division was able to consolidate its strong global market position by creating new applications and successfully launching innovative products on the marketplace.

The Engineering and Contracting business area showed a continuing good business development in 2012. Lenzing Engineering profited from the strong investment activity within the Lenzing Group as well as increasing demand for waste air purification plants by external customers along with a large filtration and separation technology project implemented in Asia.

Mechanical Construction and Industrial Services

The Mechanical Construction and Industrial Services business area of the Business Unit Engineering is positioned as a contract manufacturer for sophisticated applications. In the reporting year this business area also profited from the high level of investment activity on the part of the Lenzing Group and very strong demand by external customers, especially for industrial services.

The sheet metal technology division continued its successful growth path despite a difficult market environment, and increased sales and earnings in 2012 compared to the previous year.

Automation and Mechatronics

In its Automation and Mechatronics division, Lenzing Technik focuses on producer-independent automation solutions for the processing industry as well as the construction of electromechanical devices and printed circuit board assembly.

Sales in the Automation segment rose in 2012. As a result, the good capacity utilization, particularly in the second half of the year, led to a perceptible improvement in earnings. Sales also increased in the Mechatronics segment, although margins were not always satisfactory due to the prevailing price pressure.

Outlook Segment Engineering

The Segment Engineering expects earnings in the current 2013 financial year to be below the comparable level achieved in 2012 due to the generally lower level of investments in mechanical engineering and construction. In order to counteract this development, existing products and services as well as the product portfolio will be consistently further developed, and sales markets will be expanded on the basis of intensified marketing activities. Lenzing will press ahead with product innovations in the fields of separation and environmental technologies.

Risk Report

Current risk environment

The historically high cotton inventories are depressing global fiber markets. In particular, the high strategic cotton reserves in China pose risks which are difficult to assess for the short- and medium-term price development. Also in the fourth quarter of 2012, the cotton price changed only marginally fluctuating within a very narrow range between 80-83 US cents/lb. For these reasons, a sideways movement at a stable price level is expected in the man-made cellulose fiber segment in 2013. The Chinese spot market for viscose staple fibers was hovering at about RMB 14,000 per ton at the beginning of 2013.

The pulp market was characterized by an ongoing downward trend in the course of the reporting year. Prices for dissolving wood pulp were at a level of approximately USD 900 per ton at the beginning of 2013. The pulp supply for Lenzing's fiber production facilities is considered to be well secured for the year 2013.

At the beginning of 2013, raw material prices for chemicals were stable due to weak demand, and energy prices were at a low level. Gas prices in the USA increased in the second half of 2012, but are still relatively low in comparison to European levels. Accordingly, risks related to strong price fluctuations are not expected in the short term.

General risks such as natural catastrophes, fire hazards or the risk of explosions, environmental damage and product liability risks continue to be potential causes of extensive damage to the Group, and are still considered to be high risk factors. There were no significant events which took place in this regard in 2012.

Construction work on the planned viscose fiber plant in India continues to be delayed because approvals by public authorities are still outstanding. Other expansion projects in Indonesia, the USA and in Lenzing are proceeding as planned or were already completed.

Risk management

The Management Board of Lenzing AG and the corporate centers assigned to it carry out extensive coordination and controlling operations for the Business Units, which serve as the operating units of the Lenzing Group. This is done within the framework of a comprehensive integrated internal control system covering all sites. The timely identification, evaluation and response to strategic and operational risks are essential components of the management activities of the business units. A unified, Group-wide reporting system functioning on a monthly basis and ongoing monitoring of the strategic and operational plans comprise the basis of this approach.

Lenzing also operates a Group-wide risk management system which is responsible for the central coordination and monitoring of risk management processes throughout the Group. The central risk management team identifies and analyzes the main risks in cooperation with the operating units and directly conveys its findings to the Management Board and the top management of the business units. This includes anticipatory analyses of potential events or near-misses as well. Another task is to actively work to mitigate risks and to implement appropriate countermeasures in cooperation with the affected business entities, or to purchase additional external coverage on the insurance market as required.

Risk management strategy

As part of its risk management strategy, Lenzing pursues a four-step approach in dealing with risks:

1. Risk analysis pursuant to the COSO®* Framework

Central risk management regularly conducts risk assessments at all of Lenzing's production sites. In this case, the risks are evaluated according to the likelihood of occurrence and financial impact pursuant to the international COSO® standards. In this regard the financial impact of potential damage on the main performance indicators is taken into account.

2. Risk mitigation

An attempt is made to minimize, avoid or intentionally accept risks in certain cases on the basis of appropriate measures, depending on the potential impact of the identified risk.

3. Determining responsibility

The responsibility for dealing with a particular risk is clearly assigned to the respective management.

4. Risk monitoring and control

During the year under review Deloitte Austria was contracted to evaluate the effectiveness of Lenzing AG's risk management system within the framework of an audit in accordance with Rule 83 of the Austrian Corporate Governance Code. The corresponding confirmation is available on the Website of Lenzing AG.

Management holds regular meetings with the risk management team to discuss the development of the respective risk categories. The main risks are evaluated every six months, and the findings are integrated in the reporting process.

In addition to fulfilling legal requirements, the main objective of the Group-wide risk management system is to increase the overall awareness of risk and to integrate subsequent findings into everyday business operations and strategic corporate development. The Risk Report only presents major risks which are not included in normal accounting standards (e.g. balance sheet, income statement).

Strategic market risks are assessed in a timely manner on the basis of Lenzing's own internal global market intelligence activities. Moreover, risks are evaluated jointly with the heads of the

*) The Committee of Sponsoring Organizations of the Treadway Commission

respective business units at annual medium-term planning sessions.

On balance, Lenzing's risk management identified a total of 29 risks and bundled them in five main areas, as described below.

I. Market environment risks

Market/Substitution risk

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

Lenzing fibers compete with cotton and synthetics on some markets. Their price development can affect Lenzing fiber sales revenues and volumes. Lenzing counteracts this risk by continuously increasing the share of specialty products with lower substitution potential in its global product portfolio as well as high quality standards combined with value-added services in the standard viscose fiber business.

Sales risk

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

Innovation risk and competition risk

As a technology leader, Lenzing is exposed to the risk of losing its position on the fiber market due to technology imitators or new technologies developed by competitors. The loss of its market position could especially take place if Lenzing is no longer capable of offering its products at competitive prices, if the products do not fulfill customer specifications or quality standards, or if its customer service fails to meet customer expectations. Lenzing counteracts this risk by carrying out research and development activities surpassing the industry average as well as a high level of product innovation and active technology screening. The Lenzing Group and other producers of man-made cellulose fibers face the risk that acceptable or even superior alternative products may become available and obtainable at more favorable prices than man-made cellulose fibers. The Lenzing Group counteracts this risk by continually increasing the share of specialty products with lower substitution potential in its global product portfolio.

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II. Operational Risks

Procurement risk (incl. pulp supply)

Lenzing purchases large amounts of raw materials (wood, pulp, chemicals) and energy in order to manufacture man-made cellulose fibers. Fiber and plastics production and their margins are subject to risks related to raw material availability and price development which can fluctuate, decline or increase to the detriment of the Lenzing Group. Lenzing counteracts these risks by carefully selecting its suppliers according to specified criteria such as price, reliability and quality, but also focuses on establishing longstanding, stable supplier-customer partnerships, in some cases with supply agreements over a period of several years. Lenzing has also established long-term contractual relationships with several raw material suppliers and service partners (but with only a few customers). These agreements require Lenzing to purchase specified quantities of raw materials at standardized terms and conditions, which may also include price adjustment clauses. As a consequence, Lenzing may not be able to change prices, quantities purchased or other contractual terms in the short term as a means of appropriately responding to changed economic conditions. This risk is aggravated by the fact that the lion's share of Group revenue is derived from short-term contractual relationships. Lenzing's energy strategy focuses on maintaining a maximum degree of self-sufficiency and compensating for price fluctuations by hedging, which also includes gas forward delivery contracts

Operating and environmental risk (incl. fire damage and natural catastrophes)

The production of man-made cellulose fibers requires a complex series of chemical and physical processes which entail certain environmental risks. These risks are well managed thanks to special, proactive and sustainable environmental management efforts, closed production cycles and the continuous monitoring of emissions on the basis of modern-day production technologies. For decades the Lenzing Group has operated production facilities for industrial purposes at several locations. For this reason, risks related to environmental damage caused in the past cannot be fully excluded. Although the Lenzing Group sets high technological and safety standards in the construction, operation and maintenance of its production sites, the risk of breakdowns, disruptions and accidents cannot be fully excluded. In particular, such difficulties can be caused by external factors over which the Lenzing Group has no control. There are no direct means of safeguarding against certain dangers (e.g. cyclones, earthquakes, floods). In addition, there is the risk of personal injury, material and environmental damage which could result in considerable claims for damages and even criminal liability. The Lenzing Group has concentrated its production operations at just a small number of sites. Any disruption at one of these facilities, for example in Lenzing (Austria) or in Indonesia (the two sites with the largest production capacities in the Lenzing Group) would impact a substantial part of the company's business operations.

Product liability risk

Lenzing markets and sells its products and services to customers throughout the world. In this regard, customers could potentially suffer from damage attributable to the delivery of a defective product from Lenzing or one of its subsidiaries. Lenzing is subject to the prevailing local laws in the countries in which it operates or does business, and in particular is exposed to a high level of liability risk in the USA. Liability claims and losses caused by Lenzing are insured within the context of a separate liability insurance program.

III. Finance Risks

Exchange rate risk

The international business relationships of the subsidiaries of the Lenzing Group expose them to currency risks. In particular, transaction and exchange rate risks exist with respect to the USD, RMB and CZK. This risk is counteracted by prospective hedging of the expected net exposure on an annual basis. The objective is to limit existing currency risks arising from already concluded or planned sales transactions. These derivatives are recognized as hedging instruments in hedge accounting on the basis of hedged transactions.

Counterparty risk

The Lenzing Group concludes transactions with a variety of banks to invest its liquid funds. The risk of a counterparty defaulting and the related negative effects are counteracted by an annually accepted investment limit specified for each counterparty by the Management Board (counterparty risk limit). The investment limits set for each counterparty is based on its probability of default. The limits are determined by taking the respective ratings into account as well as the publicized "corporate default swap" spreads and can be correspondingly adjusted during the year if changes in creditworthiness occur.

The potential default on accounts receivable is counteracted by a strict receivables management and covered by a global credit insurance policy.

Tax risk

Lenzing's production facilities are subject to local tax regulations in the respective countries, and are required to pay both income taxes as well as other taxes. Changes in tax laws or differing interpretations of prevailing regulations could lead to subsequent tax liabilities.

Compliance

The dynamic growth of the Lenzing Group and the ongoing tightening of international laws and codes of conduct increase the demands imposed upon Lenzing to comply with and monitor compliance to these regulations. Insufficient controls in business processes or a lack of adequate documentation could potentially result in violations of relevant statutory provisions. Lenzing addressed this by developing a global compliance organization and the introduction of its own code of conduct.

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IV. Personnel Risks

Succession planning/qualified employees

Personel risks may arise as a consequence of the fluctuation of employees serving in key positions, as well as recruiting of new staff, especially with respect to the growth path of the Lenzing Group and the strong increase in the number of people working at the company's global sites. Lenzing has established a Corporate Center Global Human Resources which continuously coordinates personnel planning with the respective sites, and centrally manages and monitors all personnel-related issues.

V. Other Risks

Risk related to the expansion of production capacity

The Lenzing Group plans to continue to grow its business by expanding production capacities as well as its product offerings and range of applications, especially on the Asian market. Furthermore, the Lenzing Group aims at deriving larger quantities of pulp from its own pulp production sites. Developing and maintaining operations at a production site in the man-made cellulose fiber industry require considerable investments. Even if the financing of the company's expansion plans has been secured, adverse economic or legal conditions, strong competition or a scarcity of raw materials (in particular the shortage of pulp) could hinder the planned expansion of the Lenzing Group. In addition, the Lenzing Group faces the risk that customer demand may prove to be insufficient in order to enable the full utilization of the increased production capacities.

Use of financial instruments

Clearly-defined, written guidelines developed by the Management Board exist for the treatment of financial risks, and are being continually monitored and evaluated. The Lenzing Group exclusively makes use of foreign currency forward contracts to protect itself against exchange rate risks associated with business operations, mainly resulting from sales in USD, RMB and CZK. The objective of exchange rate risk management is to protect payment flows from business operations against adverse exchange rate fluctuations. Hedging activity as well as the correlation between risk and hedging instruments are continuously monitored and reported. Corresponding hedging transactions ensure that exchange rate changes do not influence payment flows. In principle currency translation risks are not hedged but are monitored on an ongoing basis. There is an active exchange of information between management, treasury and the affected business units.

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

Allowances are made for the identifiable risk of loss related to primary financial instruments, such as loans, securities, receivables and cash held at banks. The carrying amounts of these financial instruments represent the maximum risk entailed. In addition, the Lenzing Group has accepted liability for associates (see note 46 for details). The risk of subsidiary liability is considered to be small as the concerned companies can be expected to meet their payment obligations.

The risk of changes in the market value of primary financial instruments and their derivatives is rated as relatively small. No increased volatility until maturity is expected for short-term financial instruments. 53.58% of the company's long-term liabilities are linked to variable interest rates.

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

Cash flow risks related to financial instruments arise from fluctuations in their respective payment flows. These are essentially limited to variable interest rate liabilities.

Financing risk

The Lenzing Group requires extensive financial resources to implement its business plan and its growth strategy. Tighter credit markets in the long-term and the continuous tense situation on capital markets related to the ongoing financial crisis in the EU member states could adversely affect the availability, terms and conditions and costs of procuring capital. In addition, declining demand or prices resulting from the financial crisis could lead to a negative impact on business operations and thus on the financial situation and earnings of the Lenzing Group.

Report on Essential Elements of the Internal Control System
(Section 243a para. 2 of the Austrian Commercial Code – UGB)

The internal control system of the Lenzing Group is designed to ensure the reliability of financial reporting, compliance with legal regulations and internal guidelines and the presentation of off balance sheet and income statement risks.

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

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

The process organization of the company is characterized by a clearly-defined and comprehensive set of guidelines which provide an appropriate basis for a strong control environment and control system. The „Mandates of the Lenzing Group“ define essential Group-wide approval processes and competencies. The management of the respective business unit or corporate center is responsible for monitoring compliance with the respective regulations and controls.

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1) Financial reporting

The Corporate Center Global Finance is centrally responsible for financial reporting, thus ensuring a clearly-defined structure and designated responsibilities for this area. A comprehensive set of regulations and guidelines detailing the way control functions are exercised has been developed and implemented.

Lenzing has established an internal control and risk management system for the accounting process aiming to ensure the uniform implementation of legal standards, generally accepted accounting principles and accounting principles contained in the Austrian Commercial Code and for Group accounting purposes, the accounting principles laid out in the International Financial Reporting Standards (IFRS) as well as internal Group accounting guidelines, especially the accounting handbook and timetable applicable throughout the entire Group.

The accounting-related internal control system is designed to ensure the timely, uniform and accurate gathering of information on all business processes and transactions in order to make reliable data available with respect to the assets, liabilities, financial position and profit or loss of the Lenzing Group.

The subsidiaries included in the consolidated financial statements of the Lenzing Group prepare individual financial statements on a company level in a timely manner, and are responsible for ensuring the decentralized implementation of existing rules with the support of the Corporate Consolidation Department. The consolidated financial statements are prepared on the basis of the data supplied by the Group companies. Corporate Consolidation is responsible for consolidation entries, reconciliations and monitoring compliance with reporting guidelines with respect to contents and deadlines.

Due to its direct access to the company's assets, the Corporate Center Treasury and Payment is considered to be a highly sensitive area. Correspondingly, comprehensive regulations and instructions have been developed to take account of the enhanced need for security in the relevant processes.

These clear guidelines stipulate the strict application of the four-eyes principle for implementing transactions, as well as the close cooperation and ongoing reporting to the central Corporate Center Treasury and Payment. The Corporate Center Internal Audit is responsible for monitoring the use of and compliance with controls in day-to-day business operations.

A global Tax Management department is in charge of handling tax issues in the Group.

2) Compliance with legal regulations and internal guidelines

Lenzing's Corporate Center Legal Management is responsible for dealing with legal issues. This centralized function is in charge of handling all legal issues within the Lenzing Group and in particular for those which go beyond standard business processes.

The newly created Corporate Center Group Compliance is responsible for developing a compliance management system (CMS) for processes regulating compliance with statutory law and internal guidelines or preventing violations of the law or improper behavior. The Corporate Center Group Compliance reports directly to the Chief Financial Officer. The compliance management system is responsible for the following tasks: identifying compliance-relevant risks, taking measures to minimize risks, complementing existing compliance-relevant guidelines by adding provisions which may be lacking, training employees, providing assistance on compliance issues, evaluating adherence to regulations, handling cases of improper behavior and preparing regular reports to the Management Board and Supervisory Board. In addition, a Code of Conduct binding throughout the Lenzing Group was developed and implemented.

Lenzing AG has declared its commitment to adhering to the rules contained in the Austrian Code of Corporate Governance Code (ACCG), and prepares a corresponding public Corporate Governance Report within the context of Lenzing's Annual Report. The Corporate Governance Report requires the participation of the Supervisory Board, which for this purpose delegates responsibility to the Audit Committee for monitoring compliance with the obligations stipulated in the report.

The Corporate Center Internal Audit is independent of organizational units and business processes, and reports directly to the Chief Executive Officer. Internal Audit also evaluates whether the deployed resources are used legally, sparingly, economically and properly in the spirit of sustainable development. Internal Audit orients its activities to the international standards laid down by the Institute of Internal Auditors (IIA). Regular reporting to the Management Board and a report sent once annually directly to the Audit Committee ensure the proper functioning of the internal control system.

3) Recognition of off balance sheet and income statement risks

The Corporate Center Risk Management identifies and presents risks outside of the statement of financial position and income statement by preparing a semi-annual Risk Report. The main risks contained in the Risk Report are also mentioned in the Annual Report. The Risk Report is prepared according to the internationally recognized standards of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Balance Sheet Structure and Liquidity

The Lenzing Group meets its obligations in a timely manner. Current payments are covered by the operating cash flow. The Group boasts a solid liquidity and equity basis as well as a sound balance sheet structure. Moreover, sufficient lines of credit which can be used for financing at any time have already been granted by various banks.

On balance, the Management Board of Lenzing AG in its capacity as the management of the Lenzing Group is not aware of any risks as at the reporting date of December 31, 2012 that could endanger the continued existence of the company in the 2013 financial year.

Management Report 2012

Research and Development

Lenzing has been setting standards in the man-made cellulose fiber industry for decades, and considers itself to be a trend-setter for the entire industry. Ongoing research and development activities guarantee that Lenzing will also be able to safeguard its position as the technological and innovation leader in the future. Some 160 employees continuously conduct research at the Lenzing site on further developing process technologies for pulp as well as for fiber production (viscose, modal, lyocell/TENCEL®) and new applications for Lenzing fibers.

The time to market or short time span between product development and product launch, particularly in the business-to-business segment, comprises a major competitive advantage. For this reason, research and development at Lenzing is integrated in the individual business units, ensuring a market-oriented product development tailored to customer requirements.

In the 2012 financial year, expenditures for research and development (calculated according to the Frascati method) in the Lenzing Group amounted to EUR 28.3 mn (2011: EUR 27.2 mn).

Process improvements

Process innovations in 2012 focused on further developing the TENCEL® technology, pursuing the objective of optimizing quality and reducing specific investment and production costs. During the reporting year Lenzing's efforts relating to viscose and modal production concentrated on further reducing the wastewater load by closing cycles and recovering the chemicals deployed. Research on process improvements is carried out within the context of research partnerships wherever it is possible and feasible. For example, in a cooperation project with other pulp producers and the University of Natural Resources and Life Sciences, Vienna, Lenzing investigated how undesired colored substances arise and how these can be avoided in order to improve fiber quality. A K-project in the COMET program* was devoted to the development of new online measuring processes for shorter reaction times in the case of malfunctions as well as the reduction of chemical use and quality control. Lenzing's longstanding research on chemical recovery and closing cycles served as the basis for launching the newly developed co-product Soda Ash Dense on the market in 2012.

Significant progress was achieved with respect to the TencelWeb™ development project in 2012. The special thing about this new technology is its ability to produce TENCEL® nonwovens directly from the spinning solution. As a result, the manufactured nonwovens feature a particularly low weight as well as a high share of microfibers. During the year under review work began on expanding the pilot facility for TencelWeb™ as the next step towards commercialization of this innovation.

*) Competence Centers for Excellent Technologies; www.ffg.at/en

TENCEL® Technology Initiative

In addition to the future expansion of TENCEL® production capacity at the Lenzing site, the company has made it a top priority to press ahead with the further development of its lyocell technology. A newly developed concept realized for the first time at the large-scale TENCEL® plant in Lenzing should enable capacity advantages despite lower specific investments costs.

New pilot plant

In the autumn of 2012 Lenzing put a second TENCEL® pilot plant for high-tech applications into operation in Heiligenkreuz in the federal province of Burgenland. The new pilot plant is designed to develop fiber products for high-tech electrical applications, especially in the field of energy storage, and should also industrially exploit promising laboratory results. A material featuring a particularly high charge density can be manufactured on the basis of carbonization thanks to the special fiber structure of TENCEL®.

Bundling strengths in pulp research

In 2012, the innovation activities for the Business Unit Pulp were bundled and restructured. In the first place, the focus of developments was on the process technology for the existing pulp production sites. Support was provided in Paskov for the further improvement of pulp quantities and quality for dissolving pulp, and the technological development work underlying the upcoming conversion to completely chlorine-free pulp qualities was carried out. At the Lenzing site innovations designed to enhance industrial-scale resource efficiency with respect to the use of chemicals in the pulp cooking plant were successfully tested. A second priority was the implementation of projects to ensure the short-term and medium-term supply of cost-efficient and high quality pulp for the Lenzing fiber sites tailored to viscose and TENCEL® production. The third focal point of pulp research was to enable the industrial scale production of the new co-product Soda Ash Dense and provide support to initial customer deliveries. Additional activities relating to future co-products were initiated.

Bioplastics in the Segment Plastics Products

The research and development priority in the Segment Plastics Products was on conducting research into bioplastics as a means of optimizing the product portfolio. Accordingly, an existing tape product on a crude oil basis was converted to bioplastics.

Management Report 2012

Environment and Sustainability

Sustainability in the Lenzing Group

The renewable raw material wood serves as the starting point for all products in the core business of the Lenzing Group, namely man-made cellulose fibers. The principles of sustainable business development are "genetically" embedded at Lenzing due to this raw material basis, and are thus implemented on an industrial scale and practiced throughout the entire Lenzing Group.

The Lenzing Group is committed to the fundamental principles of sustainable development. For Lenzing, operating profitably is equally important to achieving a social balance and safeguarding the ecological basis of life. The cornerstones of sustainable business development are the long-term, competitive creation of value in production as well as the most prudent use of natural resources, social responsibility and a human-friendly working environment.

Responsibility for the environment

Lenzing fibers are frequently an indispensable part of modern industrial society, and make an important contribution to a better and more comfortable way of life, whether in clothing, home textiles, health care or for hygienic purposes and body care. Lenzing consistently pursues the goal of manufacturing these consumer goods with the least possible environmental impact, and considers this to be a continuous improvement process. Whereas the viscose fiber industry was seen as a major environmental polluter in previous decades, Lenzing has shown that this no longer has to be the case. Lenzing sets standards for the entire man-made cellulose fiber industry on the basis of sustainable process improvements, the closing of chemical cycles and the use of state-of-the-art wastewater and exhaust air purification processes.

Environmental Standards in the Lenzing Group

Environmental Standards were first defined for the Lenzing Group during the year under review. They serve as a means of more precisely formulating the existing Policy for Safety, Health and Environment. With these Environmental Standards, Lenzing voluntarily commits itself to complying with specified environmental criteria. The basis for Lenzing's commitment is its orientation to strict benchmarks stipulated in various international standards such as the EU Ecolabel. The Environmental Standards of the Lenzing Group apply to all its sites and regions and are considered to be a yardstick according to which the future behavior of the company in the field of environmental protection will be oriented. More information is available at the following links:

www.lenzing.com/environmental-standards
www.lenzing.com/she-policy

Responsibility for people

The Lenzing Group operates globally, but as an Austrian company with a tradition dating back 75 years embodies values which are deeply rooted in European culture. The principles of tolerance, openness and respect to all people apply equally, regardless of the particular region in which the company operates. In its role as a European globalization pioneer, Lenzing has acted in an exemplary manner in practicing these principles for several decades, for example at its sites in Asia. Social commitment has continuously been an integrated aspect of its business activities. Employees comprise the basis of Lenzing's corporate success, which is why the company is striving to offer its employees interesting and demanding tasks combined with personal development and career advancement opportunities in a fair and safe working environment.

Responsibility for the economy

Time and again there are conflicts of interests between economic, ecological and social considerations. However, recent years have shown that Lenzing has continually managed to resolve these conflicts very effectively and adhere to its corporate principles and values at the same time. Economic performance indicators have been constantly improved over a longer period of time. Nevertheless, social aspects and environmental demands have always been integrated into the decision-making process with a sense of proportion.

In order to objectively evaluate the additional economic impact of the Lenzing Group, the company commissioned Professor Friedrich Schneider at the Institute of Economics of Johannes Kepler University in Linz to calculate the value creation generated at the individual production sites of the Lenzing Group as well as the entire Lenzing Group. In this case a model calculation integrating the business activities of the Lenzing Group (ongoing operations and investment activity) was contrasted with a simulation in which these activities did not take place at all. The analysis was carried out with the help of a simulation model based on economic estimates in which all significant economic parameters and all relevant business areas were taken into account.

The results of the study confirm that the ongoing operations and investment activity of the Lenzing Group generate considerable value creation. On an accumulated basis, the activities of the Lenzing Group at its seven production sites in the year 2011 increased GDP by a total of over EUR 930 mn and mass income rose by more than EUR 400 mn. Beside the jobs in the Lenzing Group itself, the company also secured or created more than 8,000 additional jobs.* On a regional level the Lenzing Group contributes to securing employment, ensuring a stable income for employees and generating added value in the producing countries.

The results of the study are described in detail in the new Sustainability Report of the Lenzing Group.

Sustainability management

Activities designed to systematize internal sustainability management efforts were intensified during the year under review. The objective of this Lenzing "Sustainability Initiative" is to expand the catalog of indicators included in the ecological, economic and social sustainability criteria as a means of improving transparency in the sustainability reporting of the Lenzing Group. Responsibility for this initiative is in the hands of the Sustainability Steering Committee, which consists of the Management Board, the two heads of the Business Units Textile Fibers and Nonwoven Fibers as well as the heads of the two corporate centers Global Safety, Health and Environment (SHE) as well as Corporate Communications.

*) This helps to give an average of 25,000 family members a higher standard of living and a more secure existence.

Management Report 2012

Awards and activities

Once again Lenzing's efforts in the field of sustainability were recognized and honored during the reporting year.

At the "Energy Globe Award Upper Austria 2012", the Lenzing Group won second place in the category "Earth", which singles out organizations focusing on the prudent and sustainable stewardship of our planet and its resources as well as all measures which contribute to this.

During the reporting year Lenzing was once again accepted for listing in the VÖNIX index (VBV Austrian Sustainability Index of the Vienna Stock Exchange. As a result, Lenzing has been listed in this index continuously since the year 2005. In 2012 Lenzing was ranked among the five most sustainable Austrian companies for the first time.

In addition, the new Lenzing Sustainability Report was designed in 2012 and was published in the first quarter of 2013.

Certifications

Certifications provide important information about the status of an organization with respect to its systems and products. Accordingly, business partners and customers can be sure that the corresponding quality, environmental and safety standards are adhered to.

Certification in the Lenzing Group

	ISO 9001	ISO 14001	OHSAS 18001
Lenzing (Austria)	✔	✔	✔
Heiligenkreuz (Austria)	✔	✔	✔
Grimsby (UK)	✔	✔	✔
Mobile (USA)	✔	✔	✔
Purwakarta (Indonesia)	✔	✔	✔
Nanjing (China)	✔	✔	✔
Paskov (Czech Republic)	✔	✔	✔

Environment protection at the Lenzing site

In 2012, Lenzing's Corporate Center Environmental Protection was once again called upon to adapt the environmental protection facilities in order to keep pace with production increases at Lenzing AG. The continuing expansion and upgrading of environmental protection measures enabled the company to fulfill these requirements very effectively.

Accordingly, the wastewater purification facility operated by the "Wasserreinhaltungsverband Lenzing – Lenzing AG" (Lenzing Water Treatment Association) was upgraded in 2012 by adding a new outlet structure and wastewater distribution system in the Ager River. As a result, the company was able to comply with the guidelines defined by the EU Water Framework Directive with respect to releasing the treated wastewater in the river.

During the reporting year the Corporate Center Environmental Protection played a leading role in managing the preparations, submission and handling of the environmental impact assessment (EIA) for the TENCEL® production plant in Lenzing. Following the public announcement of the project, the six-week project conditionality and oral proceedings, the Upper Austrian Provincial Government in its capacity as the responsible EIA authority finally granted formal approval to the project in May 2012 in accordance with the Federal Act on the Environmental Impact Assessment. Obtaining the legally valid license in less than nine months after submission of the application confirms the good quality and preparations involved in submitting the environmental impact assessment as well as the professional project and process management displayed by both Lenzing AG as well as the responsible authorities and specialized entities of the Upper Austrian Provincial Government.

In addition to handling issues relating to the wastewater management for TENCEL® production within the context of the environmental impact assessment, the "Wasserreinhaltungsverband Lenzing – Lenzing AG" also developed a detailed project plan for the "TENCEL® Pre-treatment Plant" and submitted the concept for approval. The enlargement of the wastewater purification facility was formally approved by public authorities in April 2012. Construction of this plant is scheduled to take place in the current 2013 financial year.

The accredited Lenzing Testing Laboratory for Ecological Analysis (UAL) once again demonstrated the high quality level of its laboratory services in the field of wastewater and waste analysis as well as ecotoxicological tests. Moreover, the re-accreditation audit carried out every five years and commissioned by the accreditation authority of the Federal Ministry of Economy, Family and Youth was successfully concluded in August 2012. The technical competence of the testing center was once again given very high marks, and its accreditation was accordingly extended.

In addition, the environmental management system at the Lenzing site was subject to a renewal audit in June 2012. This recertification process implemented every three years in accordance with ISO 14001 was managed extremely well.

Human Resources

The Lenzing Group to a large extent owes its market leadership position and technological edge to the commitment, creativity and qualifications of its employees. Ultimately the employees comprise the basis for the sustainable success and further development of the company. For this reason, Lenzing continually implements measures for the promotion, continuing education and professional development of its individual employees and to improve the working environment of the company.

In addition to numerous specialized professional trainings, Lenzing employees were also offered a variety of seminars in 2012 designed to promote their personal development. The professional development and further education efforts at the Lenzing site are bundled in a separate institute, the "Bildungszentrum Lenzing" (Lenzing Training Center).

Management Report 2012

During the reporting year the Corporate Center Global Human Resources took the lead to successfully expand the Global Management Development Program. The focus in the 2012 financial year was on providing continuing education courses for Lenzing managers in the light of the fact that a strongly expanding company such as the Lenzing Group requires experienced executives in all regions of the world.

Accordingly, 30 staff members once again participated in the Group-wide Global Management Development Program, which consists of five modules held at five different sites of the Lenzing Group. The objective of the program is to provide Lenzing managers with the tools they need for their everyday business activities, as well as to create strong networks spanning individual sites and organizational units. In 2012 the Lenzing Global Management Development Program focused on Asia, the fastest growing region within the Lenzing Group.

The coaching training for managers initiated in the year 2011 was successfully continued in 2012. Coaching competencies enable executives to more effectively support their employees in improving their qualifications and developing their own skills. Furthermore, the first ten Lenzing managers began an in-depth 18-month coaching program.

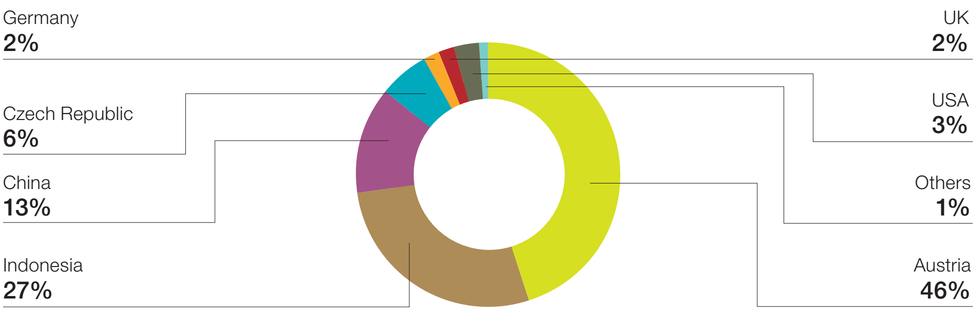
In line with its corporate principles, Lenzing expects all its executives to analyze and competently assess business management issues as the basis for making timely decisions. In the past many managers specified the need for further financial training tailored to non-financial experts. For this reason, Lenzing offered a course entitled “Finance for Non-Financials” in 2012. This training program is designed to provide Lenzing executives with the necessary expertise to make sound decisions in day-to-day business operations.

Capacity expansion creates new jobs

At the reporting date of December 31, 2012, the total number of employees working for the Lenzing Group comprised 7,033 people around the world (December 31, 2011: 6,444). This increase of about 9.1% in the total staff was the result of the global capacity expansion program, which made it necessary to recruit additional staff at almost all fiber production sites. In particular, new employees were hired for the fifth viscose fiber production line at PT. South Pacific Viscose in Indonesia and for Lenzing (Nanjing) Fibers in China.

Staff members by country

Lenzing Group headcount 31. December 2012: 7,033*



*) incl. trainees, excl. leased labor

A total of 3,058 people were employed at corporate headquarters in Lenzing at the reporting date of December 31, 2012, working for the companies Lenzing AG, Lenzing Technik, Lenzing Plastics, Leno and BZL (December 31, 2011: 2,968). Of these, 180 were trainees (December 31, 2011: 188).

An additional 12 trainees received vocational instruction and training at the Lenzing sites in Heiligenkreuz (Austria) and Grimsby (Great Britain).

Occupational safety and health

The Corporate Center Global Safety, Health and Environment (SHE) is responsible for overseeing the Lenzing Group's efforts with respect to occupational safety and health as well as environmental protection issues on a Group level. During the 2012 financial year, its top priorities were the further development of the reporting system and performance indicators in the field of occupational safety, and the issuing of different handbooks on relevant issues.

During the year under review the annual "SHE" conference was held in June, serving as the basis for a lively exchange of views and experiences among Lenzing's SHE managers. In addition, monthly video conferences took place in which topical issues were discussed.

With respect to process safety, the development of a CS_2 safety handbook in 2012 comprised an important milestone. Experts at the three Lenzing viscose production sites located in Lenzing, Purwakarta and Nanjing worked closely together to prepare this manual. CS_2 or carbon disulfide is used to manufacture viscose fibers. For decades the entire Lenzing Group has complied with the strictest safety standards for handling CS_2. Now unified guidelines have been established.

Fire prevention and protection was once again a focal point of the company's efforts during the reporting period. In this regard, three new handbooks were issued on this topic in 2012.

Safety

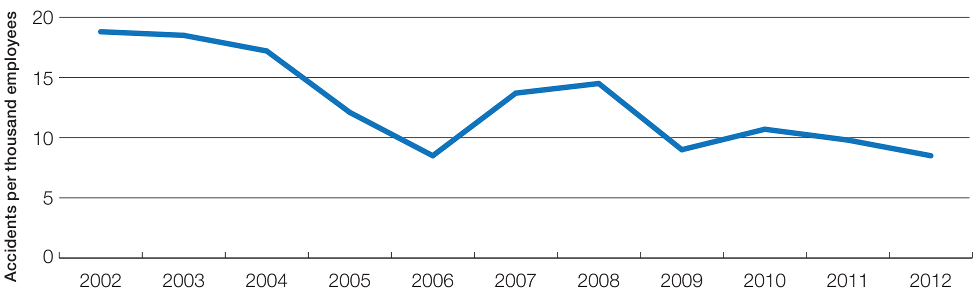
"General Safety Rules" applicable throughout the Group were developed in 2012. They set minimum standards for all production sites in the Lenzing Group, and deal with such issues as addictive behavior, fire protection, personal protective equipment as well as special safety instructions for employees facing greater risks in their work.

Efforts made in recent years to further improve safety at the company helped to slightly reduce the number of accidents per 1,000 employees in the year 2012.

Management Report 2012

Development of accident rates

Lenzing Group



Health

In 2012 employees at the company's headquarters in Lenzing were once again able to take advantage of numerous offerings in the field of health care. During the year under review, the focus was on the issue of nutrition. As a consequence, the staff restaurant was converted to serving regional and organic food. Employees were able to gain a first-hand impression of what this change entails within the context of a day of action on healthy eating.

In order to prevent diseases of the musculoskeletal system from arising, all employees have the opportunity to take part in an appropriate spinal training program at a fitness center of their choice. About 400 employees took advantage of this offering in the 2012 financial year.

The tried and tested Lenzing Health Days were continued in 2012. Within the framework of this initiative, approximately 200 participants spent four days during the reporting year focusing on the issues of physical exercise, nutrition and relaxation under the guidance of a professional instructor and an occupational physician.

The inspections and analyses carried out by the occupational physicians at the health care center "IBG-Gesundheitszentrum Lenzing" were further extended during the year under review.

In order to assist employees in maintaining their psychological health, Lenzing once again held seminars on dealing with stress and stress management in 2012. Furthermore, there were special offerings for employees in difficult life situations.

Corporate Communications

Continuous and transparent communications are essential for the Lenzing Group as a globally operating and publicly listed company. For this reason, ongoing communications with all external stakeholders as well as an open information policy with company employees comprise important features of Lenzing's corporate culture.

At a Group level, the communications processes are coordinated by the Corporate Center Corporate Communications, which ensures that effective and competent public relations work is being carried out. The corporate centers Corporate Communications and Investor Relations work closely together in order to ensure a holistic approach.

Public Relations

In the year 2012, the Lenzing Group once again provided comprehensive and timely information to the general public and employees about the business development, current projects and important activities. Information for external stakeholders was disseminated by means of regular press releases, media events and individual talks with journalists. Furthermore, communications tools such as the employee and customer magazines, newsletters and broadcasts on a local TV station in the vicinity of the Lenzing site provided opportunities to get the latest news from the world of Lenzing.

The quarterly employee magazine “Der Lenzinger“ and the monthly magazine “Zpravodaj Biocel“ (Paskov, Czech Republic) provide the latest news to employees at the respective sites in their native languages. “SPV Voice“, a magazine published in English and Bahasa Indonesia, provided information to employees at the Purwakarta (Indonesia) site about issues relating to the company for the first time in 2012. In the future it will appear twice a year. In addition, two issues of “Warta Comdev”, which is designed to inform the population living near the Indonesian facility, came out during the reporting year. It is a magazine published in the native language of Bahasa Indonesia to report about the community development work undertaken by SPV. For example, it presents successful examples about the SPV microcredit program. The magazine “Lenzing Inside” (bilingually in English and German) reports on developments in the entire Lenzing Group and is published semi-annually. This publication is distributed to employees at all company sites as well as to interested stakeholders and customers.

Within the context of “Lenzing TV”, the company broadcasted 25 reports about issues of topical interest from the world of Lenzing. The TV program is produced in cooperation with the local Upper Austrian TV station “BTV”, which also broadcasts the stories. “Lenzing TV” is also available synchronized in English on the Lenzing Group Intranet to all employees around the world.

In the year 2012 Lenzing once again presented itself to an international expert audience as an exhibitor at numerous specialized trade shows in Europe, America and Asia. In addition to introducing product innovations, these trade fairs are also used to maintain and expand contacts to customers and business partners.

During the year under review, a task carried out by the Corporate Center Corporate Communications was to provide communications support to the environmental impact assessment for the new TENCEL® production plant in Lenzing. In January 2012, a very well-attended information event held in the local community center was organized for the benefit of the interested public, amongst other measures. The range of information was complemented by publication of a separate brochure detailing the most important data on the project as well as regular reports appearing in the local media.

At the end of May, Corporate Communications hosted a two-day Corporate Communications Meeting in Lenzing for the first time. Some 30 communicators from all of Lenzing’s global sites met at corporate headquarters to exchange views on topics such as corporate design, sustainability, copyrights and internal communications.

Management Report 2012

For the first time, Lenzing took part in 2012 in the “Long Night of R&D“, the largest scientific event in Austria. Some 100 visitors were given a comprehensive insight into the world of Lenzing fibers, and found out more about the process steps for the production of viscose fibers and TENCEL® as well as the related challenges for the company’s research work. Moreover, the visitors enthusiastically took advantage of the opportunity to take part in an experiment themselves.

Prizes and awards

Lenzing also won a variety of prizes and awards in the year 2012.

For the second time, Lenzing won the Austrian ranking in the category “Big Player” within the context of Austria’s Leading Companies, an award organized by a leading Austrian business daily to honor the most sustainably successful and financially stable companies in the country.

Moreover, during the reporting year Lenzing won the award as the top company in the federal province of Upper Austria and the third best nationwide in the competition “Jobs through Innovation.” This initiative showcases exemplary Austrian companies which sustainably create and preserve jobs on the basis of their research and development work.

Outlook 2013

The 2013 financial year will be fully geared to mark the 75th anniversary of Lenzing. In addition to communications and organizational preparations and implementation of a major internationally-oriented event, numerous other anniversary-related activities are planned, also for employees. Furthermore, the Lenzing Group plans to publish an updated version of its Sustainability Report in 2013.

Investor Relations

Lenzing share

The Lenzing share is publicly traded on the Prime Market of the Vienna Stock Exchange, and has been listed in the ATX index on the Vienna Stock Exchange since its successful “Re-IPO” in the summer of 2011. Accordingly, Lenzing ranks among the 20 largest listed companies in Austria. At the end of 2012, Lenzing was ranked 14th in terms of market capitalization.

Share performance

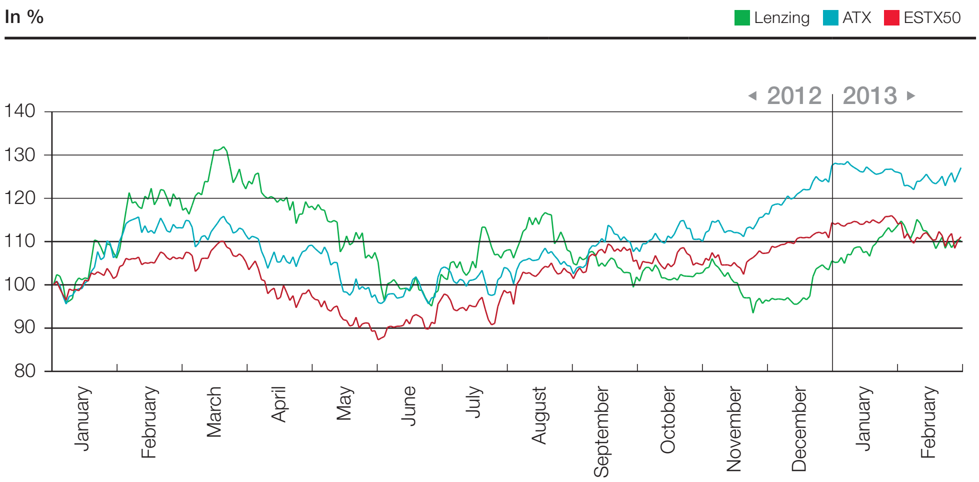
The year 2012 was characterized by a recovery on international stock markets, though trading volumes remained low. The MSCI World Index started the year at a value of 1,186 and ended at 1,327, corresponding to an increase of about 12%. The Euro Stoxx 50 commenced the year at 2,370.20 points and closed at 2,635.93 points, a rise of approximately 11%.

The Vienna benchmark index ATX began 2012 at 1,890.45 points and reached a level of 2,401.21 points at the year-end close of trading, an improvement of about 27%. The primary reason for the upward movement of the ATX was the recovery of the banking sector, which has a high weighting in the index, starting in the fall of 2012. In turn, this can be attributed to new approaches to solve Europe's sovereign debt crisis as well as positive signs of an economic upswing in Eastern Europe, where Austrian banks have been traditionally heavily involved. In contrast, the industrial stocks listed on the ATX developed more moderately.

The Lenzing share commenced trading in 2012 at a share price of EUR 65.94, and ended the year at EUR 68.22. The year's low was EUR 61.55 per share on November 22, 2012, whereas the peak value of the Lenzing share was reached on March 19, 2012, when it was traded at EUR 87.80.

On balance, the performance of the Lenzing share in 2012 was positive, featuring a 3.5% rise in value. The Lenzing share particularly managed to make up ground in the last four weeks of trading.

The Lenzing share price



Lenzing in the VÖNIX Sustainability Index

The Lenzing share has been listed uninterruptedly in the VÖNIX Index (VBV Austrian Sustainability Index) since 2005. In the reporting year, Lenzing was ranked as one of the five most sustainably oriented companies for the first time.

Management Report 2012

Approximately 60 of the largest Austrian companies listed on the Vienna Stock Exchange were analyzed to compile the sustainability index, and evaluated on the basis of 100 different environmental and social criteria. 21 of these firms have been accepted for listing in the current VÖNIX Index.

Investor relations measures

The Corporate Center Investor Relations is primarily responsible for providing support services to institutional investors and analysts. In addition to pursuing the primary objective of communicating in an open, transparent and proactive manner with the capital market, Lenzing's investor relations activities in 2012 focused on increasing the level of awareness of the company on international stock exchanges.

Lenzing regularly and comprehensively informed its shareholders by means of various communications channels, ranging from extensive quarterly reporting and press releases to maintaining personal contact. The information offering on the Internet, which is one of the most important communications channels, was further expanded.

In 2012 the Management Board and Investor Relations provided details about the current business development of the company, the economic environment and the strategic success factors of the Lenzing Group at some 200 talks held in Europe and the USA. Lenzing was represented at important bank conferences in Austria and internationally as well as investor conferences in London and Boston which centered on the chemical industry. Moreover, Lenzing presented itself at the Austrian Day of the Vienna Stock Exchange in Zurich and the Information Day of the Vienna Stock Exchange in Vienna. Furthermore, analysts and investors were regularly given an overview of the current strategic and corporate business development within the context of conference calls and telephone conversations. Lenzing Investor Relations also took part in private investor events in Austria, such as the Stock Exchange Club evening event held by Kremser Bank and Sparkassen AG in Krems.

Capital Markets Day 2012

About one year after its successful Re-IPO, the Lenzing Group hosted a "Capital Markets Day" at its corporate headquarters in September 2012 for national and international analysts and investors. The approximately 20 institutional investors attending the event had the opportunity to take a tour of the plant grounds and familiarize themselves with the individual production steps required in manufacturing man-made cellulose fibers. The Management Board and the heads of the Business Units Textile Fibers and Nonwoven Fibers provided insights into the value chain as well as detailed information about the latest developments on the global fiber market and the strategic orientation of the Lenzing Group. A further priority was on providing details about innovative fiber applications developed by Lenzing.

Analyst coverage

A total of six analysts regularly reported about Lenzing in 2012. In April 2012 Kepler Capital Markets resumed its analyst coverage of the Lenzing Group. The following overview lists the analysts and their investment recommendations (as at March 18, 2013):

Analyst Research

Analyst	Recommendation	Targeted share price	Last update
Morgan Stanley Research Europe	Buy	EUR 90.00	November 19, 2012
Deutsche Bank	Buy	EUR 80.00	November 16, 2012
Raiffeisen Centrobank AG, Wien	Hold	EUR 77.00	February 26, 2013
ERSTE Group, Wien	Accumulate	EUR 81.80	March 5, 2013
Bank of America Merrill Lynch	Underperform/Sell	EUR 59.00	March 11, 2013
Kepler Capital Markets	Hold	EUR 70.00	March 13, 2013

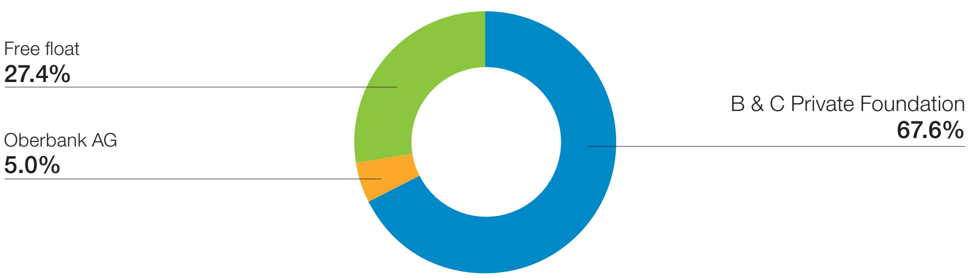
The latest information about analyst research is available on the Lenzing Website:
www.lenzing.com/en/concern/investor-center/analyst-research.html

Nominal capital and the shareholder structure

The nominal capital of Lenzing AG amounts to EUR 27,574,071.43 and is divided into 26,550,000 individual shares. The majority owner is the B & C Group, which holds a 67.6% stake of the voting rights and sees itself as the long-term, industrially-oriented Austrian core shareholder of the Lenzing Group. Moreover, Oberbank AG, a leading Austrian regional bank, holds about 5% of the voting rights of the company. The remaining shares are in free float with a broad shareholder base consisting of international and Austrian investors. The company does not have any treasury stock.

Shareholder Structure

Lenzing Group



Position of shareholders

Each no-par value share grants the shareholder one vote at the Lenzing AG Shareholders' Meeting. Unless mandatory provisions of the Stock Corporation Act provide otherwise, the Shareholders' Meeting passes resolutions by a simple majority of the votes cast and – if a majority of the nominal capital is required – by a simple majority of the nominal capital represented at the Shareholders' Meeting.

Management Report 2012

There are no shares that confer special rights to control. No share buy-back program exists. There are no provisions other than those stipulated by law with respect to the appointment or dismissal of members of the Management Board and Supervisory Board.

First-time issuance of a German Private Placement

In November 2012 Lenzing issued a German Private Placement (Schuldschein) to the amount of EUR 200 mn (senior debt, unsecured). Lenzing was able to attain an extremely favorable interest rate of 2.55% on average, featuring an average term to maturity of six years. The transaction was multiple times oversubscribed compared to the original offering of EUR 100 mn. The German Private Placement was offered with a term to maturity of four and seven years respectively, in each case at fixed and variable interest rates, as well as a term to maturity of ten years, but only at a fixed interest rate.

Following the issuance of a corporate bond in 2010 and the capital increase within the context of the Re-IPO 2011, Lenzing thus took advantage of a further asset class for financing purposes. Accordingly, the targeted diversification of Group financing was continued, especially in the light of the possibility to optimally add further tranches in the future to the existing German Private Placement.

Outlook Lenzing Group

Fiber market

At the beginning of 2013, the global sales market for textile fibers as well as for nonwovens remained largely unchanged compared to the level prevailing in the fourth quarter of 2012. Cotton prices moved slightly upwards. The Cotton A Index, which was at a level of about 83 US cents/lb at the end of 2012, rose to 89 US cents/lb at the end of February 2013. In the light of the ongoing high cotton inventories, it remains to be seen whether or not this upward trend will be sustainable. Another factor is the Chinese policy towards stockpiling cotton, which is difficult to predict and which market analysts agree has a considerable influence on price developments on the cotton market. Due to the many uncertainty factors, the current market situation only allows little visibility in predicting the further development of the market in 2013.

Lenzing Group

Based on the prevailing market situation, Lenzing considers a sideways trend on the fiber market to be the most likely scenario. Therefore the 2013 financial year is expected to be a transitional year.

Based on the additional production capacities at SPV (Indonesia) and Mobile (USA), which will be available to Lenzing for the first time for an entire financial year, shipment volumes are expected to rise by about 13.5% to 920,000 tons against the backdrop of all fiber production facilities operating at full capacity. Sales should rise to a level between approximately

EUR 2.15 bn and EUR 2.25 bn. This includes the budgeted decline of external sales of the Business Unit Pulp to the amount of another EUR 50 mn, due to the fact that the Paskov pulp plant in the Czech Republic will be completely converted to providing dissolving wood pulp for the Group's internal needs in the current financial year.

The expected drop in the average fiber selling price in a year-on-year comparison to a level of EUR 1.80 - 1.90 per kilogram (2012: EUR 1.96/kg) will have a direct negative impact on earnings to the amount of about EUR 100 mn. The earnings contribution made possible by the higher fiber shipment volumes is expected to be largely offset by cost increases for personnel expenses (higher volumes, salary increases), CS_2 and other input factors.

From today's perspective, taking account of the expected development of fiber prices, the Lenzing Group anticipates EBITDA to range between EUR 260 mn and EUR 290 mn, whereas EBIT is likely to be at a level between EUR 140 mn and EUR 170 mn. This corresponds to a forecasted EBITDA margin of about 12% - 13% in the 2013 financial year, whereas the EBIT margin is expected to be about 6% - 8%.

Investments (CAPEX) should total about EUR 260 mn, significantly below the comparable level in 2012 of EUR 346 mn. The focus will be on construction of the new TENCEL® production facilities in Lenzing and replacement investments. Thus Lenzing is taking account of the current low visibility with respect to market developments and the corresponding need to effectively manage its cash flow.

Within the context of its consistent focus on the core business of man-made cellulose fibers, Lenzing is evaluating different options on how to optimally develop its non-core plastics business in the future. These considerations do not exclude the possibility of changes in ownership.

Lenzing will respond to the low market visibility in 2013 by optimizations of market-related activities, cost structures as well as replacement and maintenance investments. The targeted volume growth of the Lenzing Group reaching the threshold of about one million tons of fiber capacity p.a. by the year 2014 remains unchanged. However, new investment projects will be subject to scrutiny with respect to the planned timeline. All megatrends on the fiber market (population growth, increased prosperity and sustainability) promoting the further growth of the man-made cellulose fiber industry remain valid on a medium- to long-term basis. However, Lenzing will flexibly adapt its pace of growth to current market conditions and place additional emphasis on cash management.

Management Report 2012

Events after the Reporting Period

There are no significants events after the reporting date requiring disclosure.

Lenzing, March 18, 2013

Peter Untersperger

Friedrich Weninger

Thomas G. Winkler

Corporate Governance Report 2012

The Austrian Code of Corporate Governance (ACCG) provides Austrian stock corporations with a framework for the management and supervision of companies. This framework includes internationally recognized standards for good corporate governance as well as relevant regulations of Austrian stock corporation law.

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

Declaration of Commitment

Lenzing AG respects the Austrian Code of Corporate Governance. For the first time, the company committed itself in 2010 to complying with the stipulations contained in the code. The Supervisory Board also unanimously resolved to fully adhere to the ACCG. The code is available on the Internet at **www.corporate-governance.at** in the currently valid version (July 2012). Lenzing AG is required to prepare and publish a Corporate Governance Report in accordance with Rule 60 of the ACCG.

This Corporate Governance Report is publicly available on the Website of Lenzing AG (C-Rule 61 ACCG).

Corporate bodies of Lenzing AG

1) Management Board

Peter Untersperger (born 1960)
Chairman of the Management Board
First appointed: January 1, 1999
Current mandate expires: March 31, 2016
Responsibilities: Business Unit Engineering, Corporate Communications, Global Human Resources, Internal Audit, Mergers & Acquisitions, Wood Purchasing
Supervisory Board mandates in other companies: none

Friedrich Weninger (born 1957)
Member of the Management Board
First appointed: January 1, 2009
Current mandate expires: December 31, 2014
Responsibilities: Business Unit Textile Fibers, Business Unit Nonwoven Fibers, Business Unit Pulp, Business Unit Energy, Business Unit Plastics, Business Unit Filaments, Global Safety, Health & Environment, Environment Lenzing Site, Infrastructure Lenzing Site, Business Planning
Supervisory Board mandates in other companies: none

Corporate Governance Report 2012

Thomas G. Winkler (1963)
Member of the Management Board
First appointed: April 1, 2010
Current mandate expires: March 31, 2016
Responsibilities: Global Finance, Global Information Technology, Global Purchasing, Investor Relations, Legal Management, Risk Management, Group Compliance
Supervisory Board mandates in other companies: Österreichische Industrieholding AG

The Management Board consists of three members, and is responsible for managing the business operations of Lenzing Aktiengesellschaft in accordance with prevailing legal regulations, the Articles of Association and the internal rules of procedure applying to the Management Board. The distribution of responsibilities among the members of the Management Board is determined based upon the organizational plan stipulated in the internal rules of procedure, which also regulates the mode of cooperation among the Management Board members. Furthermore, the Management Board is required to fully comply with the rules stipulated in the Austrian Code of Corporate Governance.

In July 2012 the Management Board mandate of Thomas G. Winkler was extended for a further three-year period. In September 2012 the mandate of Peter Untersperger, Chairman of the Management Board, was also extended until March 2016.

2) Supervisory Board

2.1. Composition

Michael Junghans (born 1967)
Since March 29, 2011: Chairman (up to March 29, 2011: Deputy Chairman)
First appointed: April 30, 2010
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2012 financial year
Supervisory Board mandates in other companies: Semperit AG Holding, AMAG Austria Metall AG

Veit Sorger (born 1942)
Since March 29, 2011: Deputy Chairman
First appointed: June 4, 2004
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year
Supervisory Board mandates in other companies: Mondi AG (Chairman), Semperit AG Holding (Chairman), Constantia Industries AG (Chairman), GrECo International Holding AG

Helmut Bernkopf (born 1967)
First appointed: April 23, 2009
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year
Supervisory Board mandates in other companies: CA Immobilien Anlagen AG, Schöllerbank AG (Chairman), Österreichische Kontrollbank AG

Josef Krenner (born 1952)
First appointed: April 23, 2009
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year
Supervisory Board mandates in other companies: Voestalpine AG, Flughafen Linz GmbH, B & C Industrieholding GmbH, BioMed-zet Life Science GmbH, AMAG Austria Metall AG (Chairman)

Martin Payer (born 1978)
First appointed: June 15, 2007
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year
Supervisory Board mandates in other companies: none

Patrick Prügger (born 1975)
First appointed: March 29, 2011
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2013 financial year
Supervisory Board mandates in other companies: Semperit AG Holding, AMAG Austria Metall AG, VA Intertrading AG

Andreas Schmidradner (born 1961)
First appointed: June 12, 2008
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year
Supervisory Board mandates in other companies: Semperit AG Holding, VAMED AG

Astrid Skala-Kuhmann (born 1953)
First appointed: April 19, 2012
Current mandate expires at the Annual Shareholders' Meeting resolving upon the 2014 financial year
Supervisory Board mandates in other companies: none

Walter Lederer (born 1961)
First appointed: June 27, 2012
Mandate expired on April 19, 2012
Supervisory Board mandates in other companies: none

Supervisory Board members designated by the Works Council

Rudolf Baldinger (born 1954)
First appointed: 1998
Audit Committee, Nomination Committee, Strategy Committee

Georg Liftinger (born 1961)
First appointed: 2008
Audit Committee, Strategy Committee

Gerhard Ratzesberger (born 1951)
First appointed: 2008

Johann Schernberger (born 1964)
First appointed: 2001

Corporate Governance Report 2012

2.2. Independence (C-Rules 53 and 54 ACCG)

The Supervisory Board has adopted the guidelines relating to the independence of its members pursuant to Appendix 1 of the Austrian Code of Corporate Governance. All members of the Supervisory Board have declared themselves to be independent from the company and the Management Board.

Pursuant to C-Rule 54 of the ACCG, the Supervisory Board members Veit Sorger, Helmut Bernkopf and Josef Krenner declared in the 2012 financial year that they were neither shareholders with a stake of more than 10% in the company nor did they represent such a shareholder's interests.

2.3. Mode of operation of the Supervisory Board

To fulfill its responsibility of overseeing the work of the Management Board, the Supervisory Board of Lenzing AG convenes at least once every quarterly period for a meeting. A total of five Supervisory Board meetings took place during the year under review (C-Rule 36 ACCG).

In the 2012 financial year the Supervisory Board of Lenzing AG constituted four committees consisting of its own members (C-Rules 34 and 39 ACCG):

2.3.1. Audit Committee

The Audit Committee carries out the responsibilities assigned to it pursuant to Section 92 Para. 4a Austrian Stock Corporation Act. This stipulates that these responsibilities are primarily in auditing and preparing the adoption of the annual financial statements and the evaluation of the proposal made by the Management Board on the distribution of profits as well as the Management Report. The Audit Committee also examines the consolidated financial statements of the Group and the Group Management Report and makes a recommendation for the selection of the auditors. Furthermore, the Audit Committee examines the effectiveness of the internal control system (ICS), internal auditing and the risk management system of the company. The committee is required to report to the Supervisory Board about its activities. In the 2012 financial year the Audit Committee convened three times.

Members: Michael Junghans (Chairman), Veit Sorger, Patrick Prügger, Rudolf Baldinger, Georg Liftinger

2.3.2. Nomination Committee

The Supervisory Board has established a Nomination Committee which makes recommendations to the Supervisory Board on filling new or vacant positions on the Management Board, and also deals with issues relating to succession planning. Moreover, the committee makes proposals to the Annual Shareholders' Meeting for filling vacant positions on the Supervisory Board. Four meetings of the Nomination Committee were held in the 2012 financial year, which focused on extending the Management Board contracts of Peter Untersperger and Thomas G. Winkler.

Members: Michael Junghans (Chairman), Veit Sorger, Rudolf Baldinger; non-voting guest: Georg Liftinger

2.3.3. Remuneration Committee

The Supervisory Board has set up a Remuneration Committee which deals with the terms and conditions of employment contracts with Management Board members, ensures compliance with C-Rules 27, 27a and 28 and also assesses the remuneration policy with respect to Management Board members in regular intervals. The Remuneration Committee convened eight times during the 2012 financial year, focusing in particular on the remuneration model applying to the Management Board starting in 2013.

Members: Michael Junghans (Chairman), Veit Sorger

2.3.4. Strategy Committee

The Supervisory Board established a Strategy Committee for the first time during the year under review. This committee focuses on the business strategy of the company and the related company-specific key performance indicators in cooperation with the Management Board. Moreover, the measures designed to implement the strategy are monitored by the Management Board, which also carried out an annual review. Two meetings of the Strategy Committee were held in the 2012 financial year.

Members: Michael Junghans (Chairman), Veit Sorger, Andreas Schmidradner, Rudolf Baldinger, Georg Liftinger

2.4. Cooperation of the Management Board and Supervisory Board

The Management Board reports to the Supervisory Board on fundamental issues relating to the business policies of the company and the Group, as well as the future development of the financial position, financial performance and cash flows. In addition, the Management Board regularly informs the Supervisory Board about business developments and the current situation of the company and the Group in comparison to forecasts, taking the future development into account. The Management Board and Supervisory Board also discuss the long-term growth objectives of the Lenzing Group in a separate strategy meeting.

2.5. Self-evaluation of the Supervisory Board

For the first time, the Supervisory Board carried out a self-evaluation in the 2012 financial year in accordance with C-Rule 36 ACCG in the form of a questionnaire which focused on the effectiveness of the control functions of the Supervisory Board as well as the compliance with the Management Board's obligations to provide information to the Supervisory Board. The results of the self-evaluation show the activities of the Supervisory Board of Lenzing AG are given good marks. Furthermore, a list of measures designed to enhance the efficiency of the Supervisory Board's work was prepared.

3) Principles of Management Board and Supervisory Board remuneration (C-Rule 30 ACCG)

The remuneration models for the Management Board employment contracts were harmonized over the last two years, and the variable salary components in these contracts were expanded. The remuneration of all three Management Board members consists of a fixed and a variable performance-oriented salary component. In addition, the Management Board is given a long-term bonus bank model. The maximum bonus is limited to 148% of the fixed annual salary in the future. A stock option program or a program featuring the preferential transfer of shares does not exist.

Corporate Governance Report 2012

- The short-term profit sharing scheme for the Management Board is primarily determined by the criteria of the Group net profit for the year and overall profitability as well as the cash flow and individual qualitative goals.

- With respect to the 2012 financial year, the dividends paid are used as the basis for determining the long-term share of the bonus. Starting in 2013, the targets used to determine the long-term bonus bank model are as follows: 2/3 of the bonus bank model will be calculated on the basis of the performance criteria of the Lenzing Group (sales, EBIT margin, total shareholder return) over a period of several years in comparison to a peer group, and 1/3 will consist of the achievement of qualitative targets. Payment will be distributed over a three-year period.

- Furthermore, the Management Board is also entitled to the company making contributions to a pension fund. This amounted to TEUR 96 in the 2012 financial year (2011: TEUR 94).

- Company pension benefits as well as severance payments and entitlements to benefits in case an employment contract of a board member is terminated are determined by valid federal regulations.

- The company has taken out a Directors and Officers Liability Insurance (D&O) policy as well as legal protection insurance for the Management Board members.

Salaries of Management Board members of Lenzing AG:

Remuneration of the management board EUR '000

	Peter Untersperger		Friedrich Weninger		Thomas Winkler		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Fix current emoluments	484	468	433	391	405	390	1,322	1,249
Variable current emoluments	696	2,240	525	1,539	488	1,391	1,709	5,170
Total	**1,180**	**2,708**	**958**	**1,930**	**893**	**1,782**	**3,032**	**6,419**

The salaries of former members of the Management Board of Lenzing AG or their surviving dependants amounted to TEUR 895 in 2012 (2011: TEUR 860).

The principles underlying the remuneration paid to members of the Supervisory Board are laid down in the Articles of Association of Lenzing AG (Section 13), which are published on the Website of the company. In accordance with the Articles of Association, the Supervisory Board will be granted in 2012 1.5% of the Group net profit for the year 2011 but a maximum of 2.5 times their annual fixed remuneration, taking account of the stipulations contained in Section 98 Austrian Stock Corporation Act. All Supervisory Board members are paid the same amount, with the exception that the Chairman is given an additional 60% and the Deputy Chairman an additional 30%. The annual fixed remuneration totals EUR 7,082. The amounts are adjusted to the consumer price index.

On balance, total remuneration for the members of the Supervisory Board amounted to EUR 222,998 for the 2011 financial year, which was resolved upon at the Annual Shareholders' Meeting 2012 and subsequently paid.

Remuneration of Supervisory Board members of Lenzing AG:

Michael Junghans	EUR	37,867
Veit Sorger	EUR	30,431
Helmut Bernkopf	EUR	24,788
Josef Krenner	EUR	24,788
Martin Payer	EUR	24,788
Patrick Prügger	EUR	18,879
Andreas Schmidradner	EUR	24,788
Astrid Skala-Kuhmann (mandate began April 2012)		-
Hermann Bell (mandate ended March 2011)	EUR	9,562
Walter Lederer (mandate ended April 2012)	EUR	24,788
Rudolf Baldinger	EUR	679
Georg Liftinger	EUR	679
Gerhard Ratzesberger	EUR	272
Johann Schernberger	EUR	679

4) Promoting the career advancement of women to Management Board, Supervisory Board and executive positions (L-Rule 60)

Lenzing AG observes a strict equal opportunity policy and actively promotes the career development of women in management positions in all business areas, in particular by increasingly selecting women to take part in internal management training programs.

During the year under review Ms. Skala-Kuhmann was elected to serve on the Supervisory Board.

In recent years the percentage of women holding qualified positions has steadily increased. Moreover, inasmuch as it is made possible by the respective position, the company promotes the compatibility of career and family life on the basis of flexible working time models and the possibility to work at home.

5) Compliance

In addition to the existing "Lenzing Principles" which serve as an orientation guide for the issues of value creation, entrepreneurial spirit, accountability, openness and honesty as well as our clear commitment to sustainable corporate management, Lenzing also developed a Code of Conduct during the reporting year. This Code of Conduct contains binding rules for all employees pertaining to the most important issues, and promotes moral and ethical behavior. A Group Compliance Officer monitors adherence to the code.

6) Director's Dealings

The disclosure of share purchases and sales by members of the Management Board and Supervisory Board is carried out in accordance with valid provisions contained in the Austrian Stock Exchange Act. A link to the Website of the Financial Market Authority can be found on the Website of Lenzing AG.

Corporate Governance Report 2012

7) Risk management and internal auditing

The effectiveness of Lenzing's risk management system was evaluated by the auditor Deloitte Audit in accordance with Rule 83 ACCG and issued an unqualified opinion. The Management Board was informed about the results. Furthermore, the Head of Risk Management annually reports about current risks during a meeting of the Audit Committee.

The Corporate Center Risk Management and Internal Audit reports directly to the Management Board. The annual auditing plan is defined in close collaboration with the Management Board and the Audit Committee. Similarly, the Head of Internal Audit reports to the Audit Committee about the key audit findings.

8) External evaluation

In accordance with Rule 62 ACCG, Lenzing submits to an external evaluation of its compliance with the C-Rules and R-Rules of the Austrian Code of Corporate Governance. Lenzing contracted KMPG Austria AG to evaluate its Corporate Governance Report 2012. The external evaluation concluded that the declaration provided by Lenzing AG committing the company to complying with the Austrian Code of Corporate Governance (July 2012 version) gives a true and fair view of the actual situation. The external evaluation report can be viewed on the company's Website at **www.lenzing.com**.

Lenzing Aktiengesellschaft

Lenzing, January 31, 2013

The Management Board

Peter Untersperger

Friedrich Weninger

Thomas G. Winkler

Selected Key figures

Selected key figures

		31/12/2012	31/12/2011
Adjusted equity[1]	EUR '000	1,153,137	1,048,107
Adjusted equity in %[1]	%	43.8	44.8
Net financial debt[4]	EUR '000	346,296	153,317
Net debt[2 4]	EUR '000	445,524	239,263
Net gearing[4]	%	30.0	14.6
Open credit lines	EUR '000	211,179	250,757
Liquid assets[3 4]	EUR '000	528,835	499,564
Capital expenditure (Intangible assets, property, plant and equipment)	EUR '000	319,640	193,352
Acquisition of non-controlling interests	EUR '000	26,593	320
Number of employees at period end	Number	7,033	6,444

Selected items of the income statement

		2012	2011
Sales	EUR '000	2,090,403	2,140,032
EBITDA before result from restructuring	**EUR '000**	**358,658**	**480,292**
EBITDA margin before result from restructuring	%	17.2	22.4
EBITDA after result from restructuring	EUR '000	352,380	480,292
EBITDA margin after result from restructuring	%	16.9	22.4
EBIT before restructuring	**EUR '000**	**254,994**	**363,979**
EBIT margin before restructuring	%	12.2	17.0
EBIT after restructuring	EUR '000	231,508	363,979
EBIT margin after restructuring	%	11.1	17.0
EBT before result from restructuring	**EUR '000**	**246,389**	**351,949**
income tax expense before result from restructuring	EUR '000	54,464	84,554
Tax ratio before result from restructuring	**%**	**22.1**	**24.0**
EBT after result from restructuring	EUR '000	236,042	351,949
Income tax expense after result from restructuring	EUR '000	55,119	84,554
Tax ratio after result from restructuring	%	23.4	24.0
Profit before result from restructuring	**EUR '000**	**191,926**	**267,404**
Attributable to shareholder of Lenzing AG before result from restructuring	EUR '000	186,626	258,671
Profit after result from restructuring	EUR '000	180,924	267,404
Attributable to shareholder of Lenzing AG after result from restructuring	EUR '000	175,624	258,671

1) Equity including grants less proportinally deferred taxes (after restructuring)
2) Including obligations for pension and severance payments
3) Including cash and cash equivalents, current and non-current securities and liquid bills of exchange.
4) As of Decmeber 2012 liquid assets also include liquid bills of exchange. The prior year figure was adjusted.


IBM
Executive

CONSOLIDATED FINANCIAL STATEMENTS 2012

Consolidated Financial Statements 2012

Contents

Lenzing AG

Consolidated Income Statement

for the period January 1, 2012 to December 31, 2012

EUR '000

Continuing operations	Note	2012	2011
Sales	(7)	2,090,403	2,140,032
Changes in inventories of finished goods and work in progress		8,229	28,489
Work performed by the Group and capitalized		57,736	30,269
Other operating income	(8)	45,401	53,134
Cost of material and purchased services	(9)	(1,303,180)	(1,275,650)
Personnel expenses	(10)	(307,756)	(287,078)
Amortization of intangible assets and depreciation of property, plant and equipment	(11)	(107,253)	(120,591)
Other operating expenses	(12)	(228,586)	(204,625)
Income from operations (EBIT) before restructuring		**254,994**	**363,979**
Result from restructuring	(13)	(23,486)	0
Income from operations (EBIT) after restructuring		**231,508**	**363,979**
Income from investments in associates	(14)	5,796	6,472
Income from non-current and current financial assets	(15)	4,733	5,556
Financing costs	(16)	(23,309)	(23,895)
Financial result		**(12,780)**	**(11,867)**
Allocation of profit or loss to puttable non-controlling interests	(34)	17,314	(163)
Income before tax (EBT)		**236,043**	**351,949**
Income tax expense	(17)	(55,119)	(84,554)
Profit after taxes from continuing operations		**180,924**	**267,395**
Discontinued operations			
Result from discontinued operations	(5)	0	9
Profit for the year		**180,924**	**267,404**
Attributable to shareholders of Lenzing AG		175,624	258,671
Attributable to non-controlling interests		5,300	8,732
Earnings per share	**(18)**	**EUR**	**EUR**
diluted = undiluted		6.61	9.88

Consolidated Financial Statements 2012

Lenzing AG

Consolidated Statement of Comprehensive Income

for the period January 1, 2012 to December 31, 2012

EUR '000

	Note	2012	2011
Profit for the year		**180,924**	**267,404**
Items that will not be reclassified to income statement			
Actuarial gains/(losses) on defined benefit plans	(33)	(16,325)	(5,222)
Share in other comprehensive income of associates	(21)	(592)	0
Income tax relating to components of other comprehensive income	(29)	4,079	1,275
		(12,838)	**(3,947)**
Items that will be reclassified to income statement			
Currency translation differences arising during the period	(29)	(4,236)	17,287
Net result on revaluation of available-for-sale financial assets during the period	(29)	323	930
Reclassification adjustments relating to available-for-sale financial assets disposed of in the period	(29)	171	0
Gains/losses from the valuation of cash flow hedges arising during the period	(29)	8,057	(8,969)
Reclassification adjustments for amounts from cash flow hedges recognized in profit or loss	(29)	16,762	(15,818)
Income tax relating to components of other comprehensive income	(29)	(6,025)	5,730
		15,053	**(841)**
Other comprehensive income – net of tax		**2,214**	**(4,788)**
Total comprehensive income		**183,138**	**262,616**
Attributable to shareholders of Lenzing AG		177,080	254,668
Attributable to non-controlling interests		6,058	7,947

Lenzing AG

Consolidated Statement of Financial Position as at December 31, 2012

EUR '000

Assets	Note	31/12/2012	31/12/2011
Intangible assets	(19)	90,978	90,072
Property, plant and equipment	(20)	1,275,169	1,091,697
Investments in associates	(21)	34,611	30,289
Financial assets	(22)	56,068	93,630
Deferred tax assets	(32)	6,445	10,771
Other non-current assets	(23)	17,241	9,311
Non-current assets		**1,480,513**	**1,325,770**
Inventories	(24)	299,580	284,577
Trade receivables	(25)	264,516	236,764
Current taxes		11,832	11,692
Current securities	(28)	0	6,748
Other current assets	(27)	88,914	64,377
Cash and cash equivalents	(36)	481,658	410,534
		1,146,499	**1,014,692**
Non-current assets held for sale and disposal groups	(5)	5,639	0
Current assets		**1,152,138**	**1,014,692**
Total assets		**2,632,651**	**2,340,462**

Equity and Liabilities	Note	31/12/2012	31/12/2011
Common stock		27,574	27,574
Capital reserves		133,919	133,919
Other reserves		(11,599)	(14,694)
Retained earnings		953,262	842,917
Equity attributable to shareholders of Lenzing AG		**1,103,156**	**989,716**
Non-controlling interests		27,544	33,978
Equity	**(29)**	**1,130,700**	**1,023,694**
Financial liabilities	(31)	701,564	518,521
Trade payables		0	50
Government grants	(30)	24,496	23,061
Deferred taxes liabilities	(32)	40,955	28,197
Provisions	(33)	140,046	112,854
Puttable non-controlling interests	(34)	28,974	32,081
Other liabilities	(35)	1,709	19,574
Non-current liabilities		**937,744**	**734,338**
Financial liabilities	(31)	173,568	134,360
Trade payables		200,259	148,504
Government grants	(30)	4,455	8,171
Income tax liabilities		43,726	74,864
Provisions	(33)	81,644	144,489
Puttable non-controlling interests	(34)	0	1,824
Other liabilities	(35)	41,859	70,219
		545,511	**582,430**
Non-current liabilities held for sale and disposal groups	(5)	18,695	0
Current liabilities		**564,206**	**582,430**
Total equity and liabilities		**2,632,651**	**2,340,462**

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Lenzing AG

Consolidated Statement of Changes in Equity

for the period January 1, 2012 to December 31, 2012

	Note	Common stock	Capital reserves	Foreign currency translation reserve
Balance as at January 1, 2011		**26,717**	**63,600**	**(595)**
Profit for the year		0	0	0
Other comprehensive income - net of tax		0	0	16,931
Total comprehensive income		**0**	**0**	**16,931**
Changes in the scope of consolidation and other changes	(4)	0	0	0
Increase in capital		857	70,320	0
Dividends		0	0	0
Balance as at December 31, 2011 = January 1, 2012		**27,574**	**133,919**	**16,336**
Profit for the year		0	0	0
Other comprehensive income - net of tax		0	0	(4,300)
Total comprehensive income		**0**	**0**	**(4,300)**
Changes in the scope of consolidation and other changes	(4)	0	0	0
Dividends		0	0	0
Reclassification based on a settlement of defined benefit plans	(33)	0	0	0
Balance as at December 31, 2012		**27,574**	**133,919**	**12,036**

Refer to Note 29

Other reserves						EUR '000
Available-for-sale financial assets	Cash flow hedging reserve	Actuarial gains/ (losses) on benefit plans	Retained earnings	Attributable to shareholder of Lenzing AG	Non-controlling Interests	Total equity
(55)	**1,531**	**(11,581)**	**624,301**	**703,918**	**28,089**	**732,007**
0	0	0	258,671	258,671	8,732	267,404
697	(17,896)	(3,735)	0	(4,003)	(785)	(4,788)
697	**(17,896)**	**(3,735)**	**258,671**	**254,668**	**7,947**	**262,616**
0	0	10	(183)	(173)	(564)	(737)
0	0	0	0	71,176	0	71,176
0	0	0	(39,874)	(39,874)	(1,495)	(41,369)
642	**(16,365)**	**(15,307)**	**842,916**	**989,716**	**33,978**	**1,023,694**
0	0	0	175,624	175,624	5,300	180,924
371	17,969	(12,584)	0	1,457	758	2,214
371	**17,969**	**(12,584)**	**175,624**	**177,080**	**6,058**	**183,138**
0	0	0	2,735	2,735	(8,603)	(5,868)
0	0	0	(66,375)	(66,375)	(3,889)	(70,264)
0	0	1,638	(1,638)	0	0	0
1,013	**1,605**	**(26,252)**	**953,261**	**1,103,156**	**27,544**	**1,130,700**

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Lenzing AG

Consolidated Cash Flow Statement

for the period January 1, 2012 to December 31, 2012

EUR '000

	Note	2012	2011
Profit for the year		**180,924**	**267,395**
+ Amortization of intangible assets and depreciation of property, plant and equipment	(11)	107,253	120,591
- Income from the reversal of government grants		(3,589)	(4,278)
+/- Change in non-current provisions		(3,564)	11,491
- Income /+ expenses from deferred taxes		15,344	(2,124)
+/- Change in receivables and liabilities of income taxes		(40,569)	46,219
- Non-cash income from associates		(5,020)	(5,511)
- Other non-cash income /+ expenses	(37)	(2,776)	1,487
Gross cash flow		**248,002**	**435,269**
+ Decrease /- increase in inventories		(15,368)	(51,411)
+ Decrease /- increase in accounts receivable		(14,841)	(80,119)
- Decrease /+ increase in accounts payable		(8,348)	5,930
Change in working capital		**(38,556)**	**(125,600)**
Operating cash flow		**209,446**	**309,669**
- Acquisition of intangible assets, property, plant and equipment		(319,640)	(193,352)
- Acquisition of non-controlling interests	(4)	(26,593)	(320)
- Acquisition of other financial assets		(4,413)	(49,220)
+ Proceeds from the disposal/of intangible assets, property, plant and equipment		1,137	2,910
+ Proceeds from the sale of other financial assets		41,121	23,830
Net cash used in investing activities		**(308,388)**	**(216,152)**
+ Capital increase		0	71,176
+ Payments of puttable non-controlling interests	(34)	0	1,463
+ payments from other shareholders		0	589
- Dividends paid to shareholders		(70,264)	(41,369)
+ Government grants		806	3,326
+/- Change from current financial liabilities		30,492	76,480
+ Receipts from private placement	(31)	199,185	0
+ Receipts from non-current financial liabilities		129,703	61,564
- Repayments from non-current financial liabilities		(124,662)	(110,747)
Net cash used in (-)/ generated by (+) financing activities		**165,260**	**62,482**
Change in cash and cash equivalents total		**66,318**	**155,999**
+/- Reclassification of assets held for sale and disposal groups		(2,469)	0
Change in cash and cash equivalents total		**63,849**	**155,999**
Cash and cash equivalents at beginning of the year		417,282	254,513
Currency translation adjustment relating to cash and cash equivalents		528	6,770
Cash and cash equivalents at the end of the reporting period	**(36)**	**481,658**	**417,282**

Lenzing AG

Notes to the Consolidated Financial Statements

as at December 31, 2012

General Information

Note 1

Basis of preparation

Description of the company and its business operations

The Lenzing Group ("the Group") consists of Lenzing Aktiengesellschaft (Lenzing AG) and its consolidated subsidiaries. Lenzing AG is a public corporation under Austrian law. The company is entered in the commercial register with the Commercial and Regional Court of Wels under the registration number FN 96499 k. Its registered office is at 4860 Lenzing, Werkstrasse 2, Austria. The shares of Lenzing AG are listed on the Prime Market (since April 18, 2011) and on the ATX benchmark index (since September 9, 2011) of the Vienna Stock Exchange in Vienna, Austria.

As at December 31, 2012, the majority shareholder of Lenzing AG is the B & C Group, which holds, directly or indirectly, 67.6% (December 31, 2011: 67.60%) of Lenzing AG's share capital. The consolidated financial statements for the largest group of companies, which are publicly accessible and in which Lenzing AG and its subsidiaries are included, are prepared by B & C Industrieholding GmbH. The ultimate parent company of B & C Industrieholding GmbH, and thus the company, is B & C Privatstiftung, Vienna.

The core business of the Lenzing Group is the production and marketing of man-made cellulose fibers. The pulp required for producing the fibers is, for the most part, generated in the company's own pulp plants and partly purchased. The most important raw material used in producing pulp is wood which is bought. Lenzing also manufactures specialty products made of plastic polymers. Moreover, the Lenzing Group operates in the field of mechanical and plant engineering, and offers engineering services. The Lenzing Group operates production facilities in Lenzing and Heiligenkreuz, Austria, Kelheim, Germany, Paskov, Czech Republic, Grimsby, Great Britain, Mobile, USA, Purwarkarta, Indonesia and Nanjing, China. The production site in Mumbai, India is currently under construction. The sales network encompasses sales companies in Hong Kong and Shanghai, China and sales offices in Jakarta, Indonesia, Coimbatore, India and in New York, USA.

Presentation of the consolidated financial statements

The consolidated interim financial statements of the Lenzing Group for the period from January 1, 2012 to December 31, 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations as adopted by the European Union, and which were mandatory at the time of preparation. The additional requirements stipulated by Section 245 Para. 1 UGB (Austrian Commercial Code) were also fulfilled.

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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 ("TEUR"), unless specified otherwise. Summation differences may occur due to rounded amounts based on the use of automated calculation aids.

Use of estimates and other discretionary decisions

In the preparation of financial statements in accordance with IFRS, the Management Board makes use of estimates and other discretionary decisions, especially assumptions about future developments. These estimates and assumptions are based on the expected situation at the reporting date, and could have a significant effect on the presentation of the financial position and the financial performance of the Group. They apply to the recognition and valuation of assets and liabilities, contingent assets and liabilities, the reporting of cash flows as well as income and expenses and the presentation of the notes to the consolidated financial statements.

A considerable risk exists in the Lenzing Group with respect to the following estimates and discretionary decisions which could lead to major adjustments in the reporting of assets, liabilities, financial position and profit and loss in a subsequent reporting period:

- The measurement of the intrinsic value of intangible assets (especially goodwill and trademarks with indefinite useful lives) and property, plant and equipment is based on forward-looking assumptions. Determining the recoverable amounts in the case of impairment tests is based on several assumptions. In this regard, the expected future cash flows (in particular price and volume developments in sales and purchase costs) as well as the discount rate play a major role. In addition, assumptions are necessary with regard to the existence of indicators pointing to a potential impairment loss.

- In the measurement of existing pensions and similar obligations, assumptions are made, amongst other factors, concerning the actuarial, demographic and financial parameters (especially the discount rate, age of retirement, life expectancy, employee turnover and future salary increases).

- The valuation of other provisions and accruals is based on assumptions relating to the probability of the future outflow of resources. The valuation of these items also involves making assumptions about the foreseeable amount required to fulfill the obligations. In particular, these uncertainties relate to provisions for guarantees and warranties, provisions for pending losses and other risks, other provisions (especially for environmental restoration measures, obligatory maintenance expenses and litigation) and accruals for anticipated profit cuts.

- The recognition of deferred tax assets is based on the assumption that in the future sufficient taxable income will be generated in order to utilize existing tax loss carryforwards.

- The recognition of development costs depends on the positive evaluation of various criteria (especially the future use or sale of the capitalized asset or the generation of future economic benefits from the asset).

- In particular, the measurement of the intrinsic value of trade receivables and purchased bonds requires estimates to be made pertaining to the credit risk.
- The valuation of construction contracts is based on estimates relating to the contract revenue and percentage of completion of these contracts.
- The measurement of the intrinsic value of inventories requires assumptions to be made about the foreseeable selling price less the sales costs up until their sale as well as the costs of completion to be incurred.
- The measurement of the intrinsic value of stakes held in associates and of financial instruments for which no active market exists is based on mathematical valuation methods. The parameters used to determine fair value are partially based on forward-looking assumptions.
- Systematic amortization of amortizable intangible assets and scheduled depreciation on depreciable property, plant and equipment is calculated on the basis of the estimated useful lives.
- In the case of business combinations, the purchase price allocation involves making assumptions concerning the existence and valuation of acquired assets (including intangible assets), liabilities and contingent liabilities. Determining fair values in the course of the purchase price allocation is based on several assumptions, above all the future cash flows and the discount rate.
- In applying cash flow hedge accounting for future cash flows, the assumption is made, in particular, that it is highly probable that these future cash flows will be generated.

Specific estimates and discretionary decisions and the underlying assumptions are explained in the respective sections of the notes to the consolidated financial statements.

Estimates and discretionary decisions are based on past experience and other assumptions which the Management Board considers to be appropriate. The amounts ultimately realized could deviate from these estimates and discretionary decisions, if the assumed conditions develop contrary to expectations. Changes will be taken into account as soon as more precise information is available and the assumptions will be adapted correspondingly.

Scope of consolidation

The consolidated financial statements of the Group are based on individual financial statements as at December 31, 2012 and comprise Lenzing AG as the parent company and its subsidiaries. Stakes held in associates are consolidated according to the equity method.

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The number of companies included in the consolidated financial statements of the Lenzing Group changed as follows:

Development of the number of consolidated companies	2012		2011	
	Full-consolidation	Equity-consolidation	Full-consolidation	Equity-consolidation
As at 1/1	**34**	**7**	**43**	**7**
Consolidated for the first time in reporting period	1	0	1	0
Deconsolidated in reporting period	0	0	(10)	0
As at 31/12	**35**	**7**	**34**	**7**
thereof in Austria	15	3	15	3
thereof in foreign countries	20	4	19	4

Changes in the scope of consolidation are described in Note 4. A list of the consolidated companies as at December 31, 2012 can be found in Note 47.

Note 2

Adoption of new and revised financial reporting standards

Standards and interpretations applicable for the financial year 2012

The Lenzing Group adopts new or revised standards and interpretations that are relevant to the Group and which are to be applied for financial years starting on January 1, 2012.

The following new or revised IFRSs and interpretations of IFRIC were adopted by the European Union and are to be applied for the first time in the 2012 financial year:

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- Amendments to IFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets
- Amendments to IAS 12 Deferred Taxes: Recovery of Underlying Assets

Effects of the new or revised standards on the Lenzing Group

The new or revised standards which are to be applied as of January 1, 2012 have no material effect on the consolidated financial statements of the Lenzing Group. The accounting policies and valuation methods as well as the calculation methods and ways of presentation remain unchanged for the most part in comparison to the previous consolidated financial statements of the Lenzing Group as at December 31, 2011.

Standards and interpretations issued but not yet effective

Effective for financial years beginning on or after July 1, 2012:

- Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income

Amendments to IAS 1 on the presentation of individual items relating to other comprehensive income were already voluntarily applied ahead of schedule in the previous financial year, and are now being adjusted. Items which will never be recognized in profit or loss, for example actuarial gains and losses, are presented separately from those items which will be recycled into profit and loss in the future, for example income and expenses from cash flow hedges.

The following revised standards, new interpretations and amendments to standards had already been issued by the time these consolidated financial statements were prepared. However, it was not yet mandatory to apply these standards for financial years beginning on or before January 1, 2012, and these standards were not applied voluntarily ahead of time:

Effective for financial years beginning on or after January 1, 2013:

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Government Loans (not yet endorsed by the EU)
- Amendments to IFRS 7 Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities
- IFRS 10 Consolidated Financial Statements (Mandatory application according to the endorsement by the EU from 1 January 2014 onwards)
- IFRS 11 Joint Arrangements (Mandatory application according to the endorsement by the EU from 1 January 2014 onwards)
- IFRS 12 Disclosure of Interests in Other Entities (Mandatory application according to the endorsement by the EU from 1 January 2014 onwards)
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12 - not yet endorsed by the EU)
- IFRS 13 Fair Value Measurement
- Amendments to IAS 19 Employee Benefits

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- IAS 27 Separate Financial Statements (Mandatory application according to the endorsement by the EU from 1 January 2014 onwards)

- IAS 28 Investments in Associates and Joint Ventures (Mandatory application according to the endorsement by the EU from 1 January 2014 onwards)

- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

- Annual Improvements to IFRSs - 2009-2011 Cycle (not yet endorsed by the EU)

Effective for financial years beginning on or after January 1, 2014:

- Amendments to IAS 32 Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities

- Investment Companies (Amendments to IFRS 10, IFRS 12 and IAS 27 – not yet endorsed by the EU)

Effective for financial years beginning on or after January 1, 2015:

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

- Amendment to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures: Mandatory Effective Date and Transition Disclosures (not yet endorsed by the EU)

In connection with the presentation of IFRS consolidated financial statements, three new standards were published in May 2011. A new control concept was introduced in IFRS 10. The effects on the scope of consolidation are currently being analyzed. IFRS 11 will abolish the option to consolidate investments in joint ventures using the proportionate consolidation method. In the future these must be recognized using the equity method. No material changes will arise because this method is already used by the Lenzing Group. IFRS 12 combines all disclosures for consolidated and non-consolidated entities in a separate standard. The extent of necessary disclosures will be increased significantly by the new standard.

The revised standard IAS 19 “Employee Benefits” takes effect for financial years beginning on January 1, 2013. The Lenzing Group is not affected by the accompanying elimination of the corridor method and the obligation to recognize actuarial gains and losses in other comprehensive income. This is due to the fact that all actuarial gains and losses up until now have already been completely recognized in other comprehensive income in the period in which they were incurred.

In calculating the net interest cost, the same interest rate must be used in the future for determining the expected income from plan assets as for the discounting of the defined benefit obligation. Changes in financial reporting will also have to be implemented by the Lenzing Group with respect to the accounting treatment of unrecognized past service costs. In the future this obligation must be completely shown as a liability in the consolidated statement of financial position, regardless of when they become vested. Expenses and income must be immediately recognized in profit or loss. The effects on the Lenzing Group are of minor importance. In addition, revised requirements for the disclosures will have to be fulfilled.

IFRS 13 summarizes the requirements in determining fair value, and in this regard replaces the current regulations contained in the individual IFRSs. With few exceptions, IFRS 13 is to be applied if, according to another standard, a measurement at fair value or disclosures relating to fair value is required or permissible. The impact of these changes on earnings and the balance sheet will likely be immaterial. With respect to the notes, additional disclosures will have to be included as a result of the stipulations contained in IFRS 13.

The new IFRS 9 stipulates extensive changes concerning the classification and measurement of financial instruments, the impairment of financial assets and regulations for hedge accounting. Due to the ongoing revisions of this standard, the impact on Lenzing Group cannot be reliably determined at this time. According to the current project status, application of IFRS 9 will first be mandatory for financial years beginning on January 1, 2015.

There are a series of other standards, changes and interpretations, which are either not relevant to the Lenzing Group or do not have a material effect on the business results, assets and liabilities and cash flows of the Lenzing Group. Application of the respective standards and interpretations will be principally carried out when it is mandatory in the EU (after the so-called "endorsement" takes place).

Note 3

Accounting policies, valuation and consolidation principles

Valuation principles

Intangible assets, property, plant and equipment, loans granted by the Group, inventories, trade and other receivables and liabilities are principally measured at historical cost.

Available-for-sale financial assets and derivative financial instruments are measured at their fair value at the reporting date. Plan assets of defined benefit pension plans as well as assets and liabilities arising from business combinations are also measured at their fair value at the reporting date.

Consolidation principles for subsidiaries

Subsidiaries are companies whose financial and business policies can be influenced by Lenzing AG in a way that Lenzing can derive economic benefits from their business activities for its own business. This is assumed to be the case if Lenzing AG holds more than 50% of the voting rights of all shareholders entitled to vote.

The acquisition of subsidiaries is accounted for on the basis of the purchase method. According to this approach, the acquired assets and liabilities (including contingent liabilities) are recognized at their fair value at the date of acquisition. Goodwill corresponds to the amount to which the sum total of the consideration transferred, the amount relating to non-controlling interests of the acquired company and, if applicable, the fair value of the equity stake previ-

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ously held by the Lenzing Group exceeds the existing net assets at the date of acquisition. Any negative goodwill which arises is recognized as income following another assessment of the valuation of the net assets. Auxiliary acquisition costs are recognized in profit or loss in the period in which they are incurred.

The valuation of non-controlling interests (shares held by non-controlling shareholders) at the time of acquisition is either based on their fair values or as a proportionate share of the recognized amounts of the net assets. In principle, they are presented in the consolidated statement of changes in equity and in the consolidated statement of financial position under the item "Non-controlling interests" and in the statement of comprehensive income under "Attributable to non-controlling interests".

The equity stakes assigned to non-controlling shareholders of certain companies (at present Lenzing (Nanjing) Fibres Co., Ltd. and European Precursor GmbH) are recognized as borrowed capital. According to stipulations contained in IFRS, these stakes comprise a liability due to the time limits laid out in company law. The initial valuation is carried out at fair value, which as a rule corresponds to the fair value of the non-controlling shareholders' capital contribution at the time the contribution is made. For subsequent measurement, the amount recognized in the initial valuation within liabilities is increased by the profit achieved or reduced by the losses incurred up until the valuation date. These shares held by non-controlling shareholders are presented in the consolidated statement of financial position under the item "Puttable non-controlling interests" if on the liabilities side and under the item "Other receivables and assets" if on the assets side. The change in the net assets attributable to non-controlling interests affecting profit and loss is presented in the consolidated income statement under the item "Allocation of profit or loss to puttable non-controlling interests." In addition, if applicable, amounts recognized directly in equity are included in measuring the liability or receivable. Dividend payouts to non-controlling shareholders reduce the liability or increase the receivable. .

A change in the shares in already controlled subsidiaries is recognized as a transaction between owners. The difference between the consideration paid and the proportionate carrying amount of the non-controlling shares is directly recognized under retained earnings.

Significant assets and liabilities as well as expenses and income resulting from transactions between the companies included in the consolidated financial statements are eliminated in consolidation. Intra-group profits and losses on services and deliveries among the consolidated companies are eliminated if the respective asset is still recognized in the inventory of the company at the reporting date.

Foreign currency translation

The euro is the reporting currency of Lenzing AG and the Lenzing Group. Subsidiaries prepare their annual 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, with the only exception being PT. South Pacific Viscose. The functional currency of PT. South Pacific Viscose is the US dollar.

Exchange rate gains or losses which result from transactions carried out by consolidated Group companies in a currency other than the functional currency are recognized in profit or loss. Monetary assets and liabilities of subsidiaries that are denominated in currencies other than the functional currency are translated at the foreign exchange rate at the reporting date.

Within the context of consolidation, assets and liabilities of subsidiaries are translated from the functional currency to the reporting currency using the exchange rate prevailing on the reporting date. Sales and other income as well as expenses are translated at the average exchange rates of the month during which the transactions occurred. Translation differences resulting from the use of different exchange rates are recognized in a separate item under other comprehensive income.

With respect to acquisitions (business combinations), the carrying amounts of the acquired assets and liabilities are adjusted to reflect their fair values at the date of acquisition. These adjustments and goodwill resulting from business combinations are treated as the assets or liabilities of the acquired subsidiaries and are subject to currency translation within the consolidation process.

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

Exchange rates of important currencies

			2012		2011	
Unit	Currency		Balance sheet date	Average	Balance sheet date	Average
1 EUR	USD	US-Dollar	1.3190	1.3119	1.2935	1.3179
1 EUR	GBP	British Pound	0.8159	0.8124	0.8352	0.8441
1 EUR	CZK	Czech Koruna	25.1450	25.2140	25.7685	25.5140
1 EUR	CNY	Renminbi Yuan	8.2172	8.1809	8.1413	8.3563
1 EUR	HKD	Hong Kong Dollar	10.2221	10.1679	10.0486	10.2496
1 EUR	INR	India Rupee	72.4075	71.6946	68.5670	69.2066

Non-current assets held for sale and disposal groups

Non-current assets (or disposal groups) are to be classified as held for sale when the related carrying amount is realized primarily as a result of a disposal transaction and not on the basis of their continued use. Immediately before these assets or disposal groups are classified as held for sale, the assets (or parts of a disposal group) must be measured in accordance with the Group's accounting policies and valuation methods. Subsequently, non-current assets held for sale (or disposal groups) are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses of a disposal group are allocated in accordance with IAS 36. Impairment losses relating to the initial classification of assets as held for sale and ensuing reversals of impairments or further impairment losses arising from the subsequent valuation are recognized in profit or loss. Intangible assets and property, plant and equipment classified as held for sale are no longer subject to scheduled amortization or depreciation.

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Discontinued operations

A discontinued operation is a component of the Group's business that comprises a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or earlier when the business area fulfills the criteria to be classified as held for sale. If any business activity is classified as a discontinued operation, the statement of comprehensive income is presented as if the business area had been classified as a discontinued operation since the beginning of the comparative period.

Intangible assets

Acquired intangible assets are reported at cost less accumulated amortization or impairment losses at the reporting date. Production costs encompass all costs which are attributable to the production process (direct and overhead costs).

Development costs related to internally generated intangible assets are capitalized if they fulfill the criteria contained in IAS 38. Otherwise, the respective development costs are recognized as expenses. Research costs are generally recognized as expenses.

Amortization and impairment losses on intangible assets during the financial year are reported in the consolidated income statement under "Amortization of intangible assets and depreciation of property, plant and equipment."

Amortization is determined on the basis of the estimated useful life of the intangible assets in accordance with the straight line method. The estimated useful lives for these intangible assets amount to:

Useful life of intangible assets

	Years
Software	3 to 10
Licenses and other intangible assets	
purchased	4 to 20
internally generated	5 to 15

Goodwill and specified trademark rights are not amortized on a systematic basis but impaired if there is any indication for impairment.

Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation or impairment losses at the reporting date. Production costs encompass all costs which are attributable to the production process (direct and overhead costs) as well as the proportionate amount of borrowing costs in the case of qualifying assets.

Depreciation is determined on the basis of the estimated useful life of the respective asset in accordance with the straight line method. The estimated useful lives for property, plant and equipment are as follows:

Useful life of property, plant and equipment

	Years
Land-use rights	30 to 96
Residential buildings	30 to 50
Office and factory buildings	10 to 50
Other buildings	7 to 33
Fiber production lines	10 to 15
Boiler stations, transformer stations, turbines	10 to 25
Other machinery and equipment	5 to 20
Vehicles	4 to 20
Office equipment and fixtures	2 to 15
IT hardware	3 to 10

Land is not depreciated on a systematic basis but impaired if there is any indication for impairment.

Depreciation and impairment losses on property, plant and equipment during the financial year are reported in the consolidated income statement under “Amortization of intangible assets and depreciation of property, plant and equipment.”

Major reconstruction or conversion work is capitalized, whereas ongoing maintenance and repair work as well as minor rebuilding is recognized in profit or loss at the time these costs are incurred.

The Lenzing Group does not own any investment properties.

Lease relationships

If assets are leased and all the main risks and opportunities related to ownership of the leased asset are transferred to the lessee, the transaction is a finance lease. All other lease relationships are classified as operating leasing.

With respect to finance lease relationships in which the Lenzing Group serves as the lessee, the leased assets are capitalized at the lower of the fair value of the assets or the present value of the future minimum lease payments. Scheduled depreciation is carried out over the economic useful life of the respective property, plant and equipment, or if shorter, over the duration

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of the leasing contract. The leased assets are capitalized as property, plant and equipment, and the payment obligations are recognized as liabilities under “Financial liabilities.”

The Lenzing Group does not serve as the lessor in any financing transactions and thus none are reported in the consolidated financial statements.

Within the context of operating leasing agreements, the stipulated leasing payments are recognized as expenses or income in the consolidated income statement.

Impairments

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

An asset is considered to be impaired if the recoverable amount of the asset or the cash-generating unit is lower than the carrying amount. The recoverable amount is the higher of the value in use and fair value less costs to sell. The value in use corresponds to the present value of the estimated future cash flows discounted at an interest rate which is customary in the market and adapted to the specific risks attached to this asset. Cash flows are derived from current planning estimates. In order to determine the fair value less costs to sell, data concerning recent market transactions, if available, is used as a benchmark. If no such transactions exist, an appropriate valuation modes has to be applied.

In order to determine the recoverable amount, assumptions are made concerning the future development, especially the development of production and sales volumes which may not be achieved in reality. In addition, estimates are made concerning underlying sales conditions of these assets on the marketplace.

If the recoverable amount of an asset cannot be determined, the asset will be included in a cash generating unit. Cash generating units comprise the smallest identifiable group of assets which generate cash flows independently from the cash flows generated by other assets. Goodwill and trademark rights with indefinite useful lives are allocated to those cash generating units that are expected to benefit from synergies arising from the respective business combination and represent the lowest level within the Group at which cash flows are monitored for management purposes. In the Lenzing Group, these cash generating units in particular are the individual production sites.

The fair value less costs to sell of cash generating units to which goodwill has been allocated and which feature trademark rights with indefinite useful lives is derived on a post-tax basis by the use of cash flow projections and budgets approved by the Management Board for the next four-year period. In justified exceptional cases, the cash flow forecasts can be extended to cover a period of up to six years (2011: up to seven years). This applies to cash generating units in which expansion investments are planned and for which the cash flow potential is completely reflected in actual cash flows only after four years. Following the detailed planning period of for years, a perpetual annuity is projected based on the assumptions of the last year, taking account of a sustainable long-term growth rate of 1.0% to 3.1% (December 31, 2011: 1.0%). The estimated value of a sustainable long-term growth rate fundamentally corresponds to half the inflation rate in the particular country in the coming years on the basis of the expectations of an international credit reference agency. This value tends to compensate for the general rise in prices. The planned or projected cash flows are discounted to the present value on the basis of a capital value-oriented process (discounted cash flow method). The discount rate is an individually determined composite interest rate derived from the average interest on borrowing capital on the basis of the capital asset pricing model (CAPM) and the expected return on the capital employed (weighted average cost of capital). This discount rate reflects current market assessments and the specific risks related to the respective cash generating units. As at December 31, 2012, the WACCs used ranged from 7.7% to 14.0% (December 31, 2011: 7.7% to 14.5%).

In calculating the WACC, externally available capital market data from comparably sized companies is used for the most part (especially to determine the risk premium). Planning and forecasts of cash flows are primarily based on internal assumptions about expected selling prices and volumes in the future and the required costs involved (in particular raw materials and energy). These internal assumptions are completed by external market assumptions, for example market studies on specific industries and overall economic prospects.

If the recoverable amount is less than the carrying amount of the asset or the cash generating unit, an impairment loss reflecting the difference is recognized in profit or loss. Impairment losses are recognized in the consolidated income statement as “Amortization of intangible assets and depreciation of property, plant and equipment”. Impairment losses of cash-generating units to which goodwill has been allocated mainly reduce the carrying amount of the goodwill. Impairment losses in excess of the carrying amount of goodwill also reduce the carrying amounts of the assets assigned to the cash-generating unit.

In the case of the reversal of impairment, the assets are written up to their fair value, but not more than the value that would have been determined by applying the normal amortization and depreciation to the original cost. Impairment losses on goodwill are not reversed in subsequent periods.

Investments in associates

Investments in associates relate to stakes held in companies in which the equity stake held by Lenzing ranges between 20% and 50% of the share capital, and where the Lenzing Group exercises a significant influence on the business and financial policies.

Investments in associates are recognized according to the equity method. According to this method, acquired stakes are initially recognized at their cost of purchase. The carrying amount of the investment is then increased or reduced by the proportionate changes in equity. The goodwill related to an investment in associates is contained in the carrying amount of the investment, and is not subject to scheduled depreciation.

Apart from that, the same consolidation principles apply as for subsidiaries.

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Financial assets and securities

Current and non-current securities are classified as available-for-sale financial assets. It is not intended to dispose of the non-current securities within a period of one year. The valuation of the securities corresponds to their market value. The market value of bonds and shares principally corresponds to their current stock market prices, whereas the current notional value is used in the case of investment funds. Realized gains and losses as well as impairment losses are recognized in profit or loss, and unrealized gains and losses less deferred taxes are reported in other comprehensive income. The effective interest rate method is applied.

A significant or long-lasting decline in the fair value of an equity instrument classified as available for sale to a level below the cost of purchase is an objective indication of impairment. As a rule, a significant decrease in fair value is assumed if the loss in value exceeds 20% in relation to historical cost. A permanent impairment of an equity instrument occurs when the decline in the fair value of the asset below its cost of purchase takes place for a longer period than nine months.

Stakes held in non-consolidated companies are recognized at cost when reliable market prices from an active market are not available or at a lower fair value in the case of impairment.

Among other purposes, non-current securities serve as securities coverage for provisions set aside by companies, for pension obligations related to Austrian pension plans in accordance with Section 14 Austrian Income Tax Act (large-scale investor fund GF 82 – fund assets pursuant to Section 20a Austrian Investment Fund Act.

Loans are recognized at amortized costs or at the lower fair value in the case of impairment.

Current and deferred taxes (deferred tax assets and liabilities)

Current taxes and deferred tax assets and liabilities relate to income tax. Current taxes are calculated on the basis of taxable income and the tax rate applied in the respective country.

Deferred tax assets or liabilities are recognized for the respective assets and liabilities on the basis of temporary differences between the values in the consolidated financial statements and the values recognized for tax purposes. In addition, within the context of deferred taxes, any tax advantages resulting from tax loss carryforwards are also taken into account inasmuch as their utilization is deemed to be likely. Deferred tax assets and liabilities are measured at the tax rates that, in line with tax laws prevailing at the reporting date, are expected to apply to the year in which the temporary differences will likely reverse. If it is probable that the deferred tax assets, especially on tax loss carryforwards, can be realized the values are maintained. Otherwise an impairment loss is recognized. No deferred taxes are recognized on permanent differences but deferred taxes are recognized for eliminations of intra-group profits.

Deferred tax assets and deferred tax liabilities are offset in the Group if the right exists to set off current tax assets against current tax liabilities and if the current taxes relate to taxable entities within the same corporate tax group.

Lenzing AG and its subsidiaries included in the group taxation agreement are group members in the tax group formed on September 25, 2009 in accordance with Section 9 Austrian Corporate Tax Law, in which B & C Industrieholding GmbH serves as the group parent and Lenzing AG and other subsidiaries of Lenzing AG are considered to be group members.

Within the context of the group taxation system, taxable profits and losses are offset. Due to the fact that taxes are jointly assessed within the tax group, deferred tax assets and liabilities of the members of the tax group are offset. Future tax obligations from the setting off of losses incurred by foreign subsidiaries are recognized in the consolidated financial statement without discounting.

Under the group and tax settlement agreement, Lenzing AG is required to pay a tax allocation to the head of the tax group. The tax allocation equals the income tax payable by Lenzing AG and its subsidiaries included in the tax group based on their taxable profits.

Any effective domestic and foreign withholding taxes relating to total profits of the tax group as well as forwarded minimum corporate income taxes reduce the tax allocation paid by Lenzing AG to the head of the tax group.

Inasmuch as current losses or tax loss carryforwards caused by B & C Industrieholding GmbH itself as the head of the tax group in the assessment year can be offset against the positive results generated by the tax group of Lenzing AG, this will reduce the tax allocation to be paid by Lenzing. The reduction of the tax allocation amounts to 50% of the valid corporate income tax rate (thus corresponding to 12.5% at present) applicable to the current losses or tax loss carryforwards incurred in an assessment year by B & C Industrieholding GmbH as head of the tax group and set off against positive earnings.

A tax loss on the part of Lenzing AG and its subsidiaries included in the tax group is kept on record and will be used to offset future taxable profits. It is agreed that a compensation for tax losses that could not be used to offset profits shall be paid at contract end.

Trade receivables and other current assets

Trade receivables and other current assets are measured at amortized cost with the exception of derivative financial instruments which are carried at the current market value. Non-current, non-interest-bearing receivables are discounted using the effective interest method. Allowances for bad debts are recognized for those items which are deemed as being totally or partially irrecoverable. Foreign currency receivables are translated at the exchange rates applicable on the reporting date. All trade receivables are classified as current assets.

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Construction contracts

If the outcome of a production contract can be reliably estimated, the revenue and costs relating to this contract are recognized according to the degree of completion of the contract activity at the reporting date (percentage of completion method). The progress made in fulfilling the contract is measured in an input-oriented manner based on the ratio of the costs incurred for the work being carried out up until the reporting date to the estimated total contract costs (cost to cost method). Project progress is continuously monitored and deviations of any kind from the initial scope of the project are included in the assessment.

If the outcome of a production contract cannot be reliably estimated, contract revenue is only recognized to the amount of the contract costs incurred which is likely to be recoverable. Contract costs are recognized as expenses in the period in which they occur.

If it is probable that total contract costs will exceed total contract revenue, the expected loss is immediately recognized as an expense.

The receivables due from customers for long-term construction contracts in progress are recognized under “Trade receivables”. The proportionate share of revenue affecting net income is reported as sales. Excess advanced payments are recognized as other liabilities.

Inventories

Inventories are measured in each case at the lower of the cost of inventories and the net realizable value. The production costs encompass all costs which are attributable to the production process (direct and overhead costs). The net realizable value is determined as the probable realizable sales proceeds less the sales costs up until the sale as well as the costs of completion to be incurred. If the reasons for the write-down of inventories cease to apply, a corresponding reversal of the write-down is carried out.

The cost of raw material and supplies employed is determined according to the weighted average cost method. Any changes in inventories of finished goods and work in progress can be seen in the item with the same name in the consolidated income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash at banks, sight deposits, checks and short-term deposits at banks. They are recognized at their respective nominal value. The liquid funds relevant to the consolidated cash flow statement not only include cash and cash equivalents but also current marketable securities with terms to maturity of less than three months, which are only subject to slight fluctuations in value.

Equity instruments issued

Equity instruments issued by the Lenzing Group are classified as a financial liability or equity depending on the commercial substance of the contractual agreement. An equity instrument is an agreement which established a residual claim to the assets of a company after the deduction of all liabilities. Issuing costs are costs which would not have arisen without the issuing of the equity instrument. A profit or loss resulting from the issuance, sale, buyback or termination of the equity instrument is reported directly in equity less any tax effects.

Emission certificates

Emission certificates are capitalized at their fair value at the time of allocation. The difference between the 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 value of the emission certificates used up until this date. The provision is measured at the asset value of the certificates, inasmuch as the number of emission certificates used by the Group is covered by the stock of emission certificates held at the reporting date. If the number of used certificates exceeds the number held by the Group, the provision is measured at the fair value of the certificates which must be obtained by the Group to cover its settlement obligation. The liability for the certificates used up until the reporting date is released to profit or loss.

Government grants

Investment grants are reported as liability items and released to profit or loss as other operating income on a straight-line basis in accordance with the expected useful life of the funded investment. The recognition and valuation of the government grants for emission certificates are detailed in the section on "Emission certificates".

Government grants deemed as reimbursements of costs are recognized as other income in the period in which the costs are incurred, unless the payment of the grant is contingent upon conditions which are not yet likely to arise with sufficient probability.

Pension commitments and similar obligations

Almost all employees working for the Lenzing Group are covered either by defined benefit or defined contribution pension plans.

The pension benefits arising within the context of defined benefit pension plans are determined by the salary upon retirement and by the duration of service. The pension plan of Lenzing AG primarily applies to employees who have already retired. The pension plan assumes a retirement age of between 58 and 63 years, depending on the gender of the employee and his or her position in the company.

The pension commitments under the defined benefit plan of Lenzing Fibers (Hong Kong) Ltd. are financed by contributions to a retirement fund. The pension commitments of Lenzing AG are in part covered by qualifying insurance policies which are recognized as pension assets.

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In addition, Lenzing employees whose employment contracts with the company are regulated by Austrian law and whose employment began before January 1, 2003, are entitled to severance payments when they reach the statutory retirement age. The amount depends on the salary level at the time the contract was terminated, and the number of years at the company. 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 have to be treated as post-employment benefits according to IAS 19, and are calculated using the projected unit credit method. Actuarial valuations are carried out at each reporting date. The benefits expected to be paid are spread over the entire period of service. Future salary and pension increases are taken into account. Actuarial gains and losses are fully recognized in the period in which they occur. They are recognized as other comprehensive income. Past service costs are recognized immediately to the extent that the benefits are already vested. Otherwise these costs are amortized on a straight-line basis over the average period until the changed benefits become vested.

The main obligations arising from defined benefit pension plans and severance payment obligations exist for Austrian companies within the Lenzing Group. A weighted discount rate was used for these obligations on the basis of the pension, severance payment and anniversary bonus obligations. The discount rate was derived from senior, fixed-interest industrial bonds with an AA-rating according to the standard of an internationally operating actuary. Bonds which show much higher or lower interest rates compared to other bonds on the basis of their respective risk assessments ("statistical outliers") were not taken into account. The currency and terms to maturity of the bonds used as the basis for the evaluation are oriented to the currency and probable terms to maturity of the obligations to be fulfilled. The estimated increases in salaries and pensions are determined by taking the average over past years which is also considered to be realistic for the future. Labor turnover rates are recognized for each company depending on the composition of the work force and the length of service on behalf of the company.

The obligation recognized in the consolidated statement of financial position comprises the present value of the defined benefit obligation adjusted for unrecognized past service costs and reduced by the fair value of plan assets.

All expenses relating to the discounting of pension and severance payment provisions, especially interest cost and expected return on plan assets are recognized as personnel expenses.

The Group pays into pension funds for defined contribution pension commitments. For employees whose employment contracts are regulated by Austrian law and who joined the company after December 31, 2002, the Group is legally required to pay 1.53% of the employee's gross salary into a statutory staff provision fund. The Lenzing Group has no further obligations with regard to defined contribution pension plans except for paying the stipulated premiums. For this reason, a provision is not established.

Obligations on the occasion of anniversary bonuses

Collective bargaining agreements stipulate that Lenzing AG and several subsidiaries, especially in Austria, are required to pay anniversary bonuses to staff members who have been working for the company for a specified number of years. The payments are generally 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 in order to cover these obligations.

In accordance with IAS 19, anniversary bonuses are considered as other long-term employee benefits. The obligations of the Group are measured according to the projected unit credit method using actuarial valuations. The expected benefits are accrued over the entire period of service, and future salary and pension increases are taken into account. Actuarial gains and losses and past service costs are recognized immediately in profit or loss.

The main obligations arising from anniversary bonuses exist for Austrian companies within the Lenzing Group. A weighted discount rate was used for these obligations on the basis of the pension, severance payment and anniversary bonus obligations. The discount rate was derived from senior, fixed-interest industrial bonds with an AA rating according to the standard of an internationally operating actuary. Bonds which show much higher or lower interest rates compared to other bonds on the basis of their respective risk assessments ("statistical outliers") were not taken into account. The currency and terms to maturity of the bonds used as the basis for the evaluation are oriented to the currency and probable terms to maturity of the obligations to be fulfilled Labor turnover rates are defined for each company depending on the composition of the work force, and the length of service.

All expenses relating to anniversary bonus provisions, especially interest cost, are recognized as personnel expenses.

Provisions

Provisions are recognized if the Group has legal or constructive obligations against third parties which result from past transactions or events, will likely lead to an outflow of assets and can be reliably estimated. They are recognized with the amount required to settle the obligation, taking account of all identifiable risks. Thereby the settlement amount with the highest probability of occurrence is used.

The assumptions underlying the setting aside of provisions are evaluated on an ongoing basis. The actual amounts could deviate from these assumptions if conditions develop contrary to expectations at the reporting date. Changes will be recognized in profit or loss as soon as more precise information is available and the assumptions will be adapted correspondingly. The reversal of provisions is recognized as income in the particular expense items which were originally burdened when the provision was established in the first place.

Non-current provisions are discounted if the discounted effect is material and the discounting period can be reliably estimated.

Provisions also encompass accruals. Compared to provisions in line with IFRS stipulations, accruals undoubtedly exist and they only feature an insignificant risk with respect to the amount and time of occurrence. The accruals are separately reported in the development of provisions. If they are financial instruments, they are treated like financial liabilities which are reported at amortized cost.

Liabilities

With the exception of derivative financial instruments which are measured at fair value, liabilities are recognized at amortized cost. Foreign currency liabilities are translated at the exchange rates applicable on the reporting date..

Non-current liabilities at interest rates which do not reflect market standards are discounted using the effective interest rate method.

Contingent liabilities

Contingent liabilities are current obligations which arise as a result of past events, but in which case an outflow of resources is not considered to be likely. If in extremely rare cases an existing liability cannot be recognized as a liability in the consolidated statement of financial position because no reliable valuation of the liability is possible, then a contingent liability is considered to exist as well. Contingent liabilities are not presented in the consolidated statement of financial position but are detailed in the notes to the consolidated financial statements.

Recognition of income and expenses

Sales include all revenues from product sales and services rendered less price discounts and other sales deductions.

The changes in inventories of finished goods and work in progress serves the purpose of neutralizing expenses for products which were still on stock at the reporting date. Work performed by the Group and capitalized serves to neutralize expenses which are to be capitalized as part of the production costs of non-current assets. Other revenue from business operations is recognized as other operating income.

Sales are recognized at the point in time when product ownership is transferred to the customer, or when the respective service is rendered, and the amount of sales and related costs can be reliably determined, and the company is likely to derive the economic benefits from the business transaction. Revenues from construction contracts are recognized according to the percentage of completion (refer to details on construction contracts provided above).

Operating expenses are recorded at the time the service is utilized or at the time these costs have been incurred.

Dividends are generally recognized when the legal claim to payment arises. Interest and other finance costs or financial income are recognized in the period in which they arise as income or expenses using the effective interest method.

Borrowing costs

Borrowing costs that are attributable to financing the acquisition, construction or production of a qualifying asset and which arise during the production period are capitalized and then subsequently written down. The capitalization is presented under the item "Work performed by the Group and capitalized" as well as the related asset investment account, whereas the write-downs are recognized under "Amortization of intangible assets and depreciation of property, plant and equipment."

All other borrowing costs are recognized in the financial result in the period in which they are incurred.

Earnings per share

Earnings per share are computed by dividing net income for the year attributable to ordinary shareholders of the parent company by the average number of ordinary shares outstanding during the period.

Financial instruments

Financial instruments encompass financial assets and financial liabilities. Depending on their classification or valuation category, the financial instruments are recognized either at amortized cost or at their fair value.

The Lenzing Group makes use of the following valuation categories: "Loans and receivables", "Available-for-sale financial assets" and "Financial liabilities at amortized cost". The category "Financial instruments measured at fair value through profit or loss" is only used in the case of trading derivatives. No use is currently being made of the fair value option. The Lenzing Group does not own any financial assets held to maturity.

If there are indications of a potential impairment (especially considerable financial difficulties on the part of the debtor, default or delay in payments or an increased probability that the debtor will declare bankruptcy), then financial assets are written down through profit or loss. Impairment losses are generally implemented by using an impairment account. An asset can only be directly derecognized if the contractual rights to payments arising from the financial assets no longer exist (particularly in the case of insolvency). If the reasons for an earlier impairment no longer apply, then the write-down is reversed up to the cost of purchase.

Financial assets and liabilities are recognized in the consolidated statement of financial position if the Group is a contractual party to the financial instrument. Financial assets are derecognized if the contractual rights to payments arising from the financial assets no longer exist or if ownership of the financial assets with all material risks and opportunities is transferred to third parties. Financial liabilities are derecognized if the contractual obligations have been settled, waived or have expired. The financial assets are recognized or derecognized at the settlement date.

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Derivative financial instruments and hedging relationships

The Group uses derivative financial instruments to hedge currency risks arising in the course of business operations and to manage the raw material price risk. These derivative financial instruments serve to balance the variability of cash flows from future transactions. Hedging transactions are determined in advance on the basis of anticipated sales and planned raw material consumption in the respective foreign currency.

The Group generally applies the rules of hedge accounting as stipulated in IAS 39. The prerequisite for applying hedge accounting is the documentation of the hedging relationship and regular measurement of the effectiveness of the hedge, which must be in the range of 80% to 125%. The effective offset of unrealized gains and losses is demonstrated by means of effectiveness tests. In the evaluation of the hedging, the effectiveness tests pools the basic transactions and hedging instruments for each hedged risk in no fewer than quarterly maturity bands. The prospective effectiveness of the hedging relationships is demonstrated by a comparison of the main conditions. In this case the planned basic transaction is compared to the concluded hedging instrument. The retrospective effectiveness of the hedge is evaluated by using the dollar offset method on the basis of comparing the accumulated changes in the fair value of the hedged items with the accumulated changes in the fair value of the hedging transactions, according to the compensation method.

If the conditions for the application of hedge accounting are fulfilled, the results from the changes in the market valuation of the derivative financial instruments are recognized either in profit or loss or in other comprehensive income. This depends on whether the hedging transaction is a fair value hedge or a cash flow hedge. In the case of a fair value hedge the gain or loss from the market valuation of the hedging transaction and the related hedged item (basis adjustment) is recorded in the earnings before interest and tax. Unrealized gains and losses from changes in the market valuations of cash flow hedges are initially recognized as other comprehensive income, and first affect profit or loss at the point in time in which the underlying hedged items are realized. Within the context of hedging future payment flows in a foreign currency (cash flow hedges), the risk up until the time of payment in the foreign currency is typically hedged in the Lenzing Group. The reclassification from other comprehensive income to profit or loss takes place at the time when sales are realized or material costs are incurred in the foreign currency. Subsequently the change in the market valuation of the derivative is recognized in profit or loss. As of this point in time, the change in the market valuation is offset against the valuation of foreign currency receivables and payables at the reporting date. The ineffective portion of the change in the fair value of the cash flow hedge and the valuation of derivatives for which a hedging relationship cannot be established (trading derivative) is immediately recognized in profit or loss.

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

Derivatives are measured at fair value. The fair value corresponds to the market value, if available, or is determined on the basis of market data available on the valuation date (in particularly currency exchange rates, raw material prices and interest rates) using customary valuation methods. The measurement of currency and commodity contracts takes place using the respective forward rates and prices at the reporting date. The forward rates and prices are oriented to spot rates and prices, taking account of forward premiums and discounts. In the case of positive market values, the creditworthiness of the contractual partners is included in the valuation. In order to assess the valuation, assessments made by banks and other contractual partners as well as the company's own models are used.

Presentation

The presentation of assets and liabilities, expenses and income, other comprehensive income, other equity items as well as the cash flows in the consolidated cash flow statement remained basically unchanged in the 2012 financial year compared to the previous financial year.

In order to enhance the informative value and readability of the consolidated financial statements, a change was made in the presentation of the consolidated cash flow statement, in which the income tax is now completely included as part of the gross cash flow. In earlier financial statements, tax deferrals resulting from changes in receivables and liabilities from current taxes were recognized in the cash flow statement as the change in working capital. By making this change, a shift resulted between the gross cash flow and the cash flow from the change in working capital. On balance, the total reported operating cash flow does not change.

The change has the following effects on the consolidated financial statements:

Change of presentation of the group cash flow — EUR '000

	before 2011	adjusted 2011
Gross cash flow	389,049	435,269
Change in working capital	(79,381)	(125,600)
Operating cash flow	**309,669**	**309,669**

In order to improve the informative value and readability of the consolidated financial statements, a special classification was used in the item "Other provisions." The other provisions also include accruals amounting to TEUR 64,507 as at December 31, 2012 (December 31, 2011 and January 1, 2012: TEUR 76,059; January 1, 2011: TEUR 93.080). In comparison to provisions pursuant to IFRS, accruals exist undoubtedly as a rule and they only feature an insignificant risk with respect to the amount and time of occurrence. Accruals are now separately reported as "accruals" in the development of provisions. If they are financial instruments, they are treated similarly to financial liabilities, which are recognized at amortized cost.

In the segment reporting, EBITDA before restructuring (earnings before interest, tax, amortization of intangible assets and depreciation of property, plant and equipment taking account of the reversal of investment grants but before restructuring) will now be used as the "segment result", due to the fact that this figure has emerged as the primary indicator to measure performance.

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In addition, other changes were implemented as a means of improving the informative value and readability of the consolidated financial statements. The following items or presentation were restructured:

- Individual cash flows presented in the notes were included in the consolidated cash flow statement.
- The reserves recognized in total comprehensive income were combined under "Other reserves." This change led to a slight adjustment in the item "Change in scope of consolidation and other changes" in the consolidated statement of changes in equity for 2011 (before the adjustment, the column "actuarial gains/losses" amounted to TEUR 0 in this item, but TEUR 10 after the adjustment was carried out; before the adjustment, the column "retained earnings" reported a figure of TEUR -173, but TEUR -183 after the adjustment was made).
- "Bonds, bank loans" and "Other loans" were combined in the consolidated statement of financial position to "Financial liabilities". The detailed items are still broken down in the notes to the consolidated financial statements (refer to Note 31).
- Various terms used in the German-language version were changed, so that the single term "assets" is now used.
- The term "fixed assets" was replaced by "property, plant and equipment".
- The term "income taxes" in the consolidated income statement was replaced by "income tax expense."
- The term "Other investment income" encompassing income from non-current and current financial investments remains the same in English but now refers to income from non-current and current financial assets.
- The term "fair value hedges" used in connection with hedging future cash flows in foreign currency was replaced by the term "cash flow hedges, underlying already realized in p&l account". Accordingly, these derivatives are presented as "cash flow hedges" in the notes to the consolidated financial statements up until the time they reach maturity. Previously, these derivatives were recognized as "cash flow hedges" up until the time the revenue was recognized or until material expenses were incurred, and as of this time until they reached maturity as "fair value hedges". This change serves to clarify the hedge relationships (hedging of future cash flows in foreign currency).
- In part the order of the notes to the consolidated financial statements was restructured.
- Minor changes were made to other terms, and the presentation in the notes was adjusted or expanded.

Changes in the presentation did not result in any differences in the valuation. The previous year's figures (including the related notes) were correspondingly adapted.

Refer to Note 2 for information on the effects of applying new and revised reporting standards.

Note 4

Changes in the scope of consolidation and business combinations

On January 19, 2011, Beta LAG Holding GmbH was founded to assume responsibility for holding functions. This company was assigned to B & C Industrieholding GmbH on May 27, 2011 and deconsolidated by the Lenzing Group.

The other deconsolidations in the year 2011 were in connection with the discontinued operations (Hahl-Pedex Group). They are described in greater detail in Note 5.

As at June 15, 2011, the Lenzing Group acquired a further 45% of the shares in Leno Electronics GmbH (Leno), which had been previously fully consolidated, for TEUR 320. As a result, Lenzing's stake in the company increased from 55% to 100%. The value of shares owned by non-controlling interests thus declined by TEUR 301.

Since April 2010, the Lenzing Group has increased its interest in Lenzing Modi Fibers India Private Limited, a joint venture with the Modi Group of India, in several tranches. In the 2011 financial year, a capital increase of TEUR 1,397 was carried out which did not preserve the previous ownership ratios. Accordingly, shares owned by the Lenzing Group declined from 99.9% (as at December 31, 2010) to 95.4% (as at December 31, 2011). Based on this transaction, the value of the shares owned by non-controlling interests increased, on balance, by TEUR 113.

In the 2012 financial year, a further capital increase to the amount of TEUR 3,136 which did not preserve the previous ownership ratios was carried out, so that the stake held by the Lenzing Group rose from 95.4% (as at December 31, 2011) to 96.3% (as at December 31, 2012). As a result, the value of the shares owned by non-controlling interests decreased, on balance, by TEUR 12.

Effective September 26, 2012, the Lenzing Group acquired a 100% stake in a previously non-operating shell company based in Munich, Germany for the acquisition price of TEUR 28. At the date of acquisition, the company had a share capital and bank deposits of TEUR 25 each. No tax-deductible goodwill arose as a result of the acquisition. The acquisition was carried out in order to reduce the time involved in comparison to establishing a separate company. The acquired company was renamed Lenzing Global Finance GmbH, whose purpose within the Lenzing Group is to issue Private placements and to pass on the proceeds received from the transactions to associates. Since its founding, the company did not achieve any notable earnings and did not cause any notable operating expenses.

Effective October 1, 2012, the Lenzing Group acquired an additional 25% of the shares in Biocel Paskov a.s. (Biocel), Paskov, Czech Republic, which had been previously fully consolidated, for the purchase price of TEUR 26,593. Accordingly Lenzing's stake in this company rose from 75% to 100%, whereas the shares held by non-controlling interests declined by TEUR 8,591 as a consequence of this transaction. The liabilities relating to the dividend guarantee for non-controlling interests decreased by TEUR 19,666 as a result of this transaction. The difference of TEUR 1,661 resulting from this transaction was offset against retained earnings.

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Note 5

Non-current assets and liabilities held for sale, disposal groups and discontinued operations

Assets and liabilities held for sale and disposal groups

European Precursor GmbH (EPG) is a fully consolidated company of the Lenzing Group assigned to the Segment Plastics Products. In December 2012, the Management Board of Lenzing AG decided to liquidate EPG. The liquidation process was initiated in January 2013 following the general shareholders' meeting of EPG. Due to the liquidation and the related disposal of the assets and the company, EPG was recognized as a disposal group as at December 31, 2012. The liquidation is expected to be completed over the next twelve months.

The main groups of assets and liabilities as at December 31, 2012 comprise the following:

Net assets of the disposal group EUR '000

	31/12/2012
Intangible assets and property, plant and equipment	3,000
Financial assets	2
Other current assets	168
Cash and cash equivalents	2,469
Assets held for sale	**5,639**
Current financial liabilities	9,707
Provisions	8,336
Other current liabilities	653
Liabilities held for sale	**18,695**
Offsetted group liabilities	12,659
Total	**(25,716)**

The measurement of intangible assets and property, plant and equipment of the disposal group EPG at their fair value less costs to sell led to an impairment loss of TEUR 17,208. The impairment loss and other valuation measures within the context of the liquidation of EPG are contained in the result from restructuring (see Note 13).

The operating income of the disposal group EPG before the valuation measures within the context of the liquidation and before consolidation effects was as follows:

Operative income from disposal group before valuation measures within the liquidation and before consolidation effects **EUR '000**

	2012
Sales	10,230
Operating expenses	(10,143)
Income from operations (EBIT)	**87**
Financial result and income tax expenses	(1,031)
Annual result	**(944)**
EBITDA	**1,841**

Discontinued operations

In order to enable the company to more intensively focus its resources on its core business of cellulose fibers in the future, Lenzing Group sold parts of its plastics filaments business (Hahl-Pedex Group) to a consortium led by Global Equity Partners (GEP) in February 2011. This comprises a further step in Lenzing's efforts to streamline its portfolio. The sale was already presented as discontinued operations in the consolidated financial statements of the Lenzing Group as at December 31, 2010 and December 31, 2011.

GEP acquired 100% of the shares in the two German companies Hahl Filaments GmbH, Munderkingen and Pedex Gmbh, Affolterbach, in the US company Hahl Inc., Lexington and in the Czech company Hahl Filaments s.r.o., Plana as well as in the related commercial properties and holding companies. The sales price amounted to TEUR 1,526.

The discontinued operations were part of the Segment Plastics Products.

In the months of January and February 2011, the Hahl-Pedex Group generated sales of TEUR 9,428 (of which TEUR 7,793 were generated in Europe and TEUR 1,635 in the USA), in comparison to operating expenses (including depreciation and amortization) of TEUR 9,109. EBIT amounted to TEUR 319, whereas depreciation and amortization totaled TEUR 438 and EBITDA was TEUR 757. The investments in intangible assets and property, plant and equipment totaled TEUR 42 (of which TEUR 38 were in Europe and TEUR 4 in the USA). No amounts were accrued in other comprehensive income in the months of January and February 2011.

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The main groups of assets and liabilities of discontinued operations at the time of deconsolidation comprise the following:

Assets and liabilities of discontinued operations at date of deconsolidation EUR '000

	2011
Non-current assets	17,170
Current assets	18,906
Assets	**36,076**
Non-current liabilities	26,076
Current liabilities	8,474
Liabilities	**34,550**
Net assets (equity)	**1,526**

In 2011, the deconsolidation effects resulted in a profit for the period from discontinued operations of TEUR 9. This profit for the period was recognized in the consolidated income statement of the Lenzing Group under the item "Result from discontinued operations". The undiluted earnings per share from discontinued operations amounted to EUR 0.00 in 2011. In 2011, there were no material cash flows to discontinued operations.

Note 6

Segment reporting

Business segments

In the Lenzing Group the segments are classified on the basis of differences between the products and services, which in turn require different technologies and market strategies. Every segment is separately managed based on the specific responsibilities of the Management Board members. The chief operating decision maker of relevance for segment reporting is the entire Management Board of Lenzing AG. The following segments are presented separately in the internal reporting of the Lenzing Group to the Management Board.

Segment Fibers:

The Segment Fibers is responsible for manufacturing and marketing man-made cellulose fibers. The pulp required for producing the fibers is, for the major part, generated in the company's own pulp plants and partly purchased. The most important raw material used in producing pulp is wood which is bought. The Segment Fibers constitutes the core business of the Lenzing Group.

The Business Units Textile Fibers, Nonwoven Fibers and Pulp are encompassed in the Segment Fibers, in light of the fact that they are comparable to each other with respect to their economic characteristics. The business units are all part of an integrated value chain with comparable opportunities and risks. In addition, the Business Unit Energy is assigned to the Segment Fibers, considering that the energy-intensive fiber and pulp production processes consume the vast majority of the energy required by the Lenzing Group.

Segment Plastics Products:

The Segment Plastics Products produces specialty products from plastic polymers. It encompasses the Business Units Plastics and Filaments.

Segment Engineering:

The Segment Engineering operates in the field of mechanical and plant engineering, and provides engineering services. It encompasses the Business Unit Engineering.

Other:

The residual Segment Other mainly consists of the business activities of the training center BZL-Bildungszentrum Lenzing GmbH, Lenzing. The “Share in the result of associates“ and “Investments in associates“ in this segment relate to Lenzing’s stakes in WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H., Vienna and Lenzing Papier GmbH, Lenzing.´

No business segments are contained in the Segment “Other” which would surpass the quantitative threshold values for reportable segments disclosure.

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Information about operating segments

2012 or 31/12/2012	Fibers	Plastics Products
Sales to external customers	1,883,023	158,453
Inter-segment sales	12,965	1,489
Total sales	**1,895,988**	**159,942**
EBITDA (Segment result)	338,684	15,932
EBIT	239,532	10,153
Amortization/depreciation of intangible assets and property, plant and equipment	102,718	5,798
thereof impairments	0	0
thereof write-ups	954	0
Share in the result of associates	5,801	0
Investments in intangible assets and property, plant and equipment	318,854	3,161
EBITDA margin	**17.9%**	**10.0%**
EBIT margin	**12.6%**	**6.3%**
Segment assets	1,945,428	94,971
Segment liabilities	450,311	25,109
Investments in associates	33,883	0

Information about operating segments (prior year)

2011 or 31/12/2011	Fibers	Plastics Products
Sales to external customers	1,927,630	170,641
Inter-segment sales	11,848	1,984
Total sales	**1,939,477**	**172,624**
EBITDA (Segment result)	458,638	16,476
EBIT	360,943	(3,489)
Amortization/depreciation of intangible assets and property, plant and equipment	101,951	19,982
thereof impairments	4,551	13,322
thereof write-ups	0	0
Share in the result of associates	6,474	0
Investments in intangible assets and property, plant and equipment	189,591	4,550
EBITDA margin	**23.6%**	**9.5%**
EBIT margin	**18.6%**	**-2.0%**
Segment assets	1,659,175	105,816
Segment liabilities	479,933	29,049
Investments in associates	29,557	0

EUR '000

Engineering	Other	Segment sum	Reconciliation	Group
47,052	1,875	2,090,403	0	2,090,403
74,706	1,599	90,760	(90,760)	0
121,758	3,474	2,181,163	(90,760)	2,090,403
10,173	696	365,486	(13,106)	352,380
8,515	620	258,819	(27,311)	231,508
1,662	76	110,255	(3,003)	107,253
0	0	0	0	0
0	0	954	0	954
0	(5)	5,796	0	5,796
2,192	154	324,361	(4,721)	319,640
8.4%	20.0%	16.8%		16.9%
7.0%	17.8%	11.9%		11.1%
46,782	795	2,087,975	544,675	2,632,651
41,821	978	518,219	983,731	1,501,951
0	728	34,611	0	34,611

EUR '000

Engineering	Other	Segment sum	Reconciliation	Group
40,380	1,381	2,140,032	0	2,140,032
66,644	1,418	81,893	(81,893)	0
107,024	2,799	2,221,924	(81,893)	2,140,032
9,014	347	484,474	(4,182)	480,292
7,531	298	365,284	(1,304)	363,979
1,487	48	123,469	(2,878)	120,591
0	0	17,873	0	17,873
0	0	0	0	0
0	(2)	6,472	0	6,472
2,229	97	196,466	(3,114)	193,352
8.4%	12.4%	21.8%		22.4%
7.0%	10.7%	16.4%		17.0%
45,466	454	1,810,910	529,552	2,340,462
30,455	979	540,417	776,352	1,316,768
0	733	30,289	0	30,289

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In order to measure the performance of the segments, the EBITDA before restructuring (earnings before interest, tax, amortization of intangible assets and depreciation of property, plant and equipment taking account of the reversal of investment grants but before restructuring) is used. The reconciliation to the earnings before interest and tax (EBIT) and the earnings before tax (EBT) is as follows:

Reconciliation from the segment result (EBITDA) to the income before tax (EBT)

EUR '000

	2012	2011
Segment result (EBITDA)	365,486	484,474
Consolidation	(6,828)	(4,182)
Group result (EBITDA) before restructuring	**358,657**	**480,292**
Capitalization of receivables due to payment claims of the liquidation	1,821	0
Recognition of provisions for payment obligations of the liquidation (incl. Consolidation)	(8,099)	0
Group result (EBITDA) after restructuring	**352,380**	**480,292**
Segment depreciation	(110,255)	(123,469)
Consolidation	3,003	2,878
Income from the reversal of government grants	3,589	4,278
Impairment of property, plant and equipment from measurement at fair value less costs to sell (in the result from restructuring)	(17,208)	0
Income from operations (EBIT) after result from restructuring	**231,508**	**363,979**
Financial result	(12,780)	(11,867)
Allocation of profit or loss to puttable non-controlling interests	17,314	(163)
Income before tax (EBT)	**236,043**	**351,949**

The reconciliation of the income before tax (EBT) to the profit for the year can be seen in the consolidated income statement. The result from restructuring is explained in detail in Notes 5 and 13.

The reconciliation of segment EBIT to the income from operations (EBIT) after result from restructuring is as follows:

Reconciliation from the Segment-EBIT to the Group-EBIT after result from restructuring

EUR '000

	2012	2011
Segment-EBIT	258,819	365,284
Result from restructuring	(23,486)	0
Consolidation	(3,825)	(1,304)
Group-EBIT after result from restructuring	**231,508**	**363,979**

The reconciliation of segment amortization of intangible assets and depreciation of property, plant and equipment to Group amortization and depreciation is as follows:

Reconciliation from segment depreciation to group depreciation

EUR '000

	2012	2011
Segment depreciation	110,255	123,469
Consolidation	(3,003)	(2,878)
Depreciation on intangible assets and property, plant and equipment	**107,253**	**120,591**
Impairments on property, plant and equipment from measurement at fair value less costs to sell (in the result from restructuring)	17,208	0
Group depreciation	**124,461**	**120,591**

Segment assets mainly comprise intangible assets and property, plant and equipment, inventories, trade receivables and other receivables excluding income tax receivables. The reconciliation of segment assets to Group assets (corresponds to total assets) is as follows:

Reconciliation of segment assets to group assets

EUR '000

	31/12/2012	31/12/2011
Segment assets	2,087,975	1,810,910
Investments in associates	34,611	30,289
Assets not assigned to segments		
Securities and other financial assets	57,218	101,528
Deferred tax assets and tax receivables	27,098	22,463
Cash and cash equivalents	481,658	410,534
Non-current assets held for sale and disposal groups	5,639	0
Consolidation	(61,549)	(35,262)
Group assets	**2,632,651**	**2,340,462**

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Segment liabilities mainly comprise trade payables, provisions and other liabilities excluding income tax liabilities. The reconciliation of segment liabilities to Group liabilities is as follows:

Reconciliation of segment liabilities to group liabilities EUR '000

	31/12/2012	31/12/2011
Segment liabilities	518,219	540,417
Liabilities not assigned to segments		
Financial liabilities	875,132	652,881
Deferred tax liabilities and income tax liabilities	84,681	103,061
Government grants	28,952	31,232
Non-current liabilities held for sale and disposal groups	18,695	0
Consolidation	(23,729)	(10,822)
Group liabilities	**1,501,951**	**1,316,768**

The reconciliations from segment items to Group Items which are not described in detail above (sales and investments) exclusively refer to consolidation effects.

Deliveries and services rendered by one segment to another take place at prevailing market terms and conditions.

Valuations used in segment reporting are in accordance with the accounting policies and valuation methods applied in preparing the IFRS consolidated financial statements.

Information about products and services

The sales to external customers are classified according to products and services and comprise the following:

Sales from external customers according to products and services

EUR '000

	2012	2011
Lenzing Viscose®	1,020,688	1,020,378
Lenzing Modal® (inclusive Lenzing FR®)	232,598	266,871
TENCEL®	331,547	293,877
Industrially manufactured cellulose fibers	**1,584,833**	**1,581,126**
Sodium Sulfate and Black Liquor	49,364	44,064
Pulp, Wood, Energy and Others	261,791	314,287
Segment Fibers	**1,895,988**	**1,939,477**
Special products from plastics polymers - Segment Plastics Products	**159,942**	**172,624**
Machine and plant engineering and engineering services - Segment Engineering	**121,758**	**107,024**
Others and Consolidation	(87,285)	(79,093)
Sales according to the consolidated income statement	**2,090,403**	**2,140,032**

There is no single external customer which accounts for more than 10% of total external sales.

Geographic areas

Sales to external customers according to sales markets as well as total assets (corresponds to total assets in the statement of financial position), non-current assets (excluding financial instruments and deferred tax assets) and investments in intangible assets and property, plant and equipment, classified by geographic areas, are as follows:

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Information about geographic areas

	Sales	
	2012	**2011**
Austria	185,873	181,718
Europe (without Austria including Turkey)	740,851	780,483
Asia	973,520	962,222
America	153,596	177,255
Rest of the world	36,563	38,353
Subtotal	**2,090,403**	**2,140,032**
Reconciliation to group values	0	0
Total	**2,090,403**	**2,140,032**

Sales are assigned according to the location of the geographic areas of the customers, whereas assets and investments are assigned according to the geographic location of the assets.

The amounts shown above encompass all segments of the Lenzing Group.

The production sites of the Segment Fibers are located in Austria, including the main site in Lenzing which manufactures standard viscose fibers as well as the fiber specialties Lenzing Modal® (including Lenzing FR®) and the lyocell production plant (Tencel®) in Heiligenkreuz. Other lyocell production facilities are located in Grimsby, Great Britain and Mobile, USA. The Group

EUR '000

Non-current Assets		Total assets		Capital expenditure	
31/12/2012	31/12/2011	31/12/2012	31/12/2011	2012	2011
698,368	619,461	981,886	863,896	135,736	67,411
198,480	162,273	296,514	260,071	67,761	41,188
459,091	404,411	737,481	645,175	92,626	72,990
45,041	26,147	72,094	41,768	23,516	11,763
0	0	0	0	0	0
1,400,979	**1,212,292**	**2,087,975**	**1,810,910**	**319,640**	**193,352**
79,533	113,479	544,675	529,552	0	0
1,480,513	1,325,770	2,632,651	2,340,462	319,640	193,352

also operates two viscose fiber production plants in Asia, namely in Purwakarta, Indonesia and Nanjing, China. The production site in Mumbai, India is currently under construction. The pulp plants are located in Lenzing, Austria and in Paskov, Czech Republic. The Segment Fibers sales network encompasses sales companies in Hong Kong and Shanghai, China and sales offices in Jakarta, Indonesia, Coimbatore, India and in New York, USA.

The production facilities of the Segments Plastics Products and Engineering are located in Lenzing, Austria, in Kelheim, Germany and in Nanjing, China

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Notes on the Consolidated Income Statement

Note 7

Sales

The Lenzing Group generates its sales by selling products and rendering services. The composition of sales according to the different revenue categories is shown in the segment reporting section (see Note 6, especially the information on products and services). The revenues from long-term construction contracts can be seen in Note 26.

Note 8

Other operating income

Other operating income comprise the following:

Other operating income EUR '000

	2012	2011
Income from recharging services, other products and energy	22,269	27,679
Income from the reversal of the liability item for emission certificates as well as other fundings	15,869	14,758
Sundry operating income	7,263	10,697
Total	**45,401**	**53,134**

Income from energy contains, amongst other items, refunds for green electricity to the amount of TEUR 6,511 (2011: TEUR 7,210).

Sundry operating income includes, amongst other items, rental income totaling TEUR 2,709 (2011: TEUR 2,682), income from the disposal of property, plant and equipment to the amount of TEUR 711 (2011: TEUR 2,607) and insurance reimbursements of TEUR 874 (2011: TEUR 2,089).

Note 9

Cost of material and purchased services

The cost of material and purchased services comprises the following:

Cost of material and purchased services EUR'000

	2012	2011
Cost of material	1,157,902	1,143,472
Purchased services	145,279	132,178
Total	**1,303,180**	**1,275,650**

The costs of material mainly relate to the consumed input factors, namely pulp (or wood in the company's own production of pulp), key chemicals (sodium hydroxide, carbon disulphide and sulfuric acid), raw materials for the production of plastic products and commodities. Costs for purchased services mainly relate to the energy consumed.

Note 10

Personnel expenses

Personnel expenses consist of the following:

Personnel expenses EUR '000

	2012	2011
Wages and salaries	237,804	222,421
Expenses for severance payments	6,235	5,569
Pension expenses	5,923	4,614
Statutory social security contributions	53,054	49,573
Voluntary social spending	4,739	4,901
Total	**307,756**	**287,078**

Collective bargaining agreements for the Austrian sites as of May 1, 2012 resulted in an increase of 4.35% to 4.5%. Comparable agreements at the subsidiaries resulted in increases of 4.7% in Great Britain, 2.0% in the Czech Republic and 3.79% in Indonesia. There were no comparable, generally binding wage agreements in the other countries. The collective wage agreements at the Austrian sites led to wage increases ranging from 3.05% to 3.15% as of May 1, 2011. Comparable agreements at the subsidiaries resulted in wage increases of 4.6% in Great Britain, 4.0% in the Czech Republic and 5.98% in Indonesia. There were no comparable, generally binding wage agreements in the other countries.

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Expenses for severance payments mainly comprise expenses for statutory obligations on the part of Lenzing AG and its Austrian subsidiaries towards their staff members (refer to Note 33) as well as voluntary severance payments.

The number of employees in the Lenzing Group is as follows:

Number of employees

	2012	2011
Average	6,739	6,294
As at 31 December	7,033	6,444

The number of employees at Lenzing AG and in the Austrian subsidiaries of the Lenzing Group is as follows:

Average number of employees in Austria

	2012	2011
Workers	2,168	1,959
Salaried employees	1,215	1,149
Total	**3,383**	**3,108**

Note 11

Amortization of intangible assets and depreciation of property, plant and equipment

Depreciation of property, plant and equipment and amortization of intangible assets comprise the following:

Amortization of intangible assets and depreciation of property, plant and equipment — EUR '000

	2012	2011
Systematic depreciation and amortization	108,207	102,718
Impairment	0	17,873
Reversal of impairment losses (write-ups)	(954)	0
Total	**107,253**	**120,591**

For more information on the impairment losses on property, plant and equipment from the valuation of the fair value of the assets less costs to sell within the context of the liquidation of EPG, as recognized in the result from restructuring, refer to Notes 5 and 13. Further details are also provided in the segment report (Note 6) and the explanatory notes on intangible assets (Note 19) and property, plant and equipment (Note 20).

Note 12

Other operating expenses

Other operating expenses comprise the following:

Other operating expenses EUR '000

	2012	2011
Selling expenses	106,486	96,474
Expenses for service, maintenance and other purchased services	35,344	33,265
Legal, audit and consultancy fees	10,262	13,670
Insurance expenses	9,903	9,492
Travel expenses	10,466	8,925
Expenses for waste disposal	7,000	6,384
Other	49,124	36,415
Total	**228,586**	**204,625**

Selling expenses primarily relate to outward freight charges amounting to TEUR 79,038 (2011: TEUR 67,774) as well as commissions and advertising costs of TEUR 26,854 (2011: TEUR 28,508).

Other operating expenses include rental and leasing expenditures totaling TEUR 7,437 (2011: TEUR 4,820), expenses for emission certificates of TEUR 3,368 (2011: TEUR 3,867), foreign currency losses to the amount of TEUR 3,325 (2011: TEUR 2,249) and losses from the disposal of property, plant and equipment of TEUR 515 (2011: TEUR 1,653).

Expenses for the auditor of Lenzing AG consist of the following:

Auditors' fees EUR '000

	2012	2011
Audit of group accounts and annual financial statements audit	259	255
Other confirmation services	55	0
Other services (in 2011: Comfort Letter)	7	697
Tax advisory services	191	97
Total	**511**	**1,049**

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The expenses listed above are for the services provided by Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna, and Deloitte Tax Wirtschaftsprüfungs GmbH, Vienna.

Note 13

Result from restructuring

For the Lenzing Group, EBITDA (earnings before interest, tax, amortization of intangible assets and depreciation of property, plant and equipment taking account of the reversal of investment grants and before restructuring) is an important indicator to measure performance. In addition, EBIT (earnings before interest and tax) is also of particular interest to the Group. For the purposes of evaluating performance, these two indicators were adjusted to take account of special effects arising from restructuring. These special effects represent one-off effects, and are non-recurring effects with regard to the type and scope of these measures, especially in connection with corporate transactions. By adding the indicators of EBIT and EBITDA, as well as earnings before tax (EBT), income tax expense and profit for the year before restructuring, stakeholders will be given an insight in the operating earnings situation of the Lenzing Group. Over a period of time, these indicators are more accurate and effectively subject to comparison than presenting EBIT and EBITDA after restructuring.

In the 2012 financial year, the valuation measures relating to the liquidation of EPG are considered as restructuring measures (refer also to Note 5). No restructuring took place in the 2011 financial year.

The result from restructuring (in the income from operations/EBIT) comprises the following (- = expenses, + = income):

Result from restructuring (in the income from operations/EBIT) EUR '000

	2012
Impairment on facilities from the measurement at fair value less costs to sell (thereof on property, plant and equipment TEUR 17,203, thereof on intangible assets TEUR 5)	(17,208)
Capitalization of receivables due to payment claims in the course of the liquidation	1,821
Recognition of provisions for payment obligations of the liquidation	(8,099)
Total	**(23,486)**

The income from operations (EBIT) before and after the result from restructuring is as follows:

Income from operations (EBIT) before result from restructuring EUR '000

	2012
EBIT before result from restructuring	254,994
EBIT margin before result from restructuring	12.2%

Income from operations (EBIT) after result from restructuring — EUR '000

	2012
EBIT before result from restructuring	254,994
Result from restructuring	(23,486)
Total	**231,508**
EBIT margin after result from restructuring	11.1%

EBITDA before and after the result from restructuring consists of the following:

EBITDA before result from restructuring — EUR '000

	2012
EBIT before result from restructuring	254,994
Depreciation and amortization (+)	107,253
Income from the reversal of government grants (-)	(3,589)
Total	**358,658**
EBITDA margin before result from restructuring	17.2%

EBITDA after result from restructuring — EUR '000

	2012
EBIT after result from restructuring	231,508
Depreciation and amortization (+)	107,253
Depreciation in the result from restructuring (+)	17,208
Income from the reversal of government grants (-)	(3,589)
Total	**352,380**
EBITDA margin after result from restructuring	16.9%

Earnings before tax (EBT), the income tax expense and the tax rate before and after restructuring are as follows:

Income before tax (EBT) before result from restructuring — EUR '000

	2012
Income from operations (EBIT) before result from restructuring	254,994
Financial result before result from restructuring	(11,960)
Allocation to profit or loss to puttable non-controlling interests before result from restructuring	3,355
Total	**246,389**

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Income tax expense before result from restructuring

EUR '000	2012
Total	**54,464**

Tax ratio before result from restructuring

	2012
Total	**22.1%**

Income before tax (EBT) after result from restructuring

EUR '000	2012
Income from operations (EBIT) after result from restructuring	231,508
Financial result	(12,780)
Allocation to profit or loss to puttable non-controlling interests	17,314
Total	**236,042**

Income tax expense after result from restructuring

EUR '000	2012
Total	**55,119**

Tax ratio after result from restructuring

	2012
Total	**23.4%**

The profit for the year before and after restructuring is as follows:

Profit before restructuring

EUR '000	2012
EBIT before result from restructuring	254,994
Financial result before result from restructuring	(11,960)
Allocation of profit or loss to puttable non-controlling interests before result from restructuring	3,355
Income tax expense before result from restructuring	(54,464)
Total	**191,926**
Attributable to shareholders of Lenzing AG	186,626
Attributable to non-controlling interests	5,300

Profit after restructuring — EUR '000

	2012
EBIT after result from restructuring	231,508
Financial result	(12,780)
Allocation of profit or loss to puttable non-controlling interests	17,314
Income tax expense	(55,119)
Total	**180,924**
Attributable to shareholders of Lenzing AG	175,624
Attributable to non-controlling interests	5,300

Note 14

Income from investments in associates

The income from investments in associates of TEUR 5,796 (2011: TEUR 6,472) results from the Group's share in the profit for the period of the associates.

Note 15

Income from non-current and current financial assets

Income from non-current and current financial assets comprises the following:

Income from non-current and current financial assets — EUR '000

	2012	2011
Income from non-current and current financial assets		
Interest income from bank deposits, loans and other receivables	4,798	4,231
Interest income from available-for-sale investments and others	673	1,759
Net exchange gains from financial assets	0	216
	5,471	**6,206**
Expenses from non-current and current financial assets		
Discounting and write-off of non-current loans	(15)	(19)
Losses on disposal of investments available-for-sale	(68)	(631)
Net exchange losses from financial assets	(655)	0
	(738)	**(650)**
Total	**4,733**	**5,556**

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Note 16

Financing costs

Financing costs comprise the following:

Financing costs EUR '000

	2012	2011
Net exchange gains/losses from financial liabilities	1,532	(425)
Interest expenses from bonds and private placement	(5,621)	(4,940)
Interest expenses from bank loans, other interest and similar expenses	(19,220)	(18,531)
Total	**(23,309)**	**(23,895)**

Note 17

Income tax expense

Income tax expense comprise the current tax expense and the income or expense from deferred taxes (change in deferred tax assets and liabilities) of companies included in the consolidated financial statements of the Lenzing Group.

The income tax expenses consists of the following:

Income tax expense according to origin EUR '000

	2012	2011
Current tax expense		
Austria	24,224	51,334
Foreign	15,550	35,344
	39,774	**86,678**
Deferred tax	15,344	(2,124)
Total	**55,119**	**84,554**

Income expense taxes according to causes

EUR '000

	2012	2011
Current tax expense		
Current tax expense relating to current year	51,949	91,547
Reduction because of the use of tax loss carry forwards	(174)	(380)
Adjustment of income taxes related to prior periods	(12,001)	(4,489)
	39,774	**86,678**
Deferred tax		
Origination and reversal of temporary differences	20,599	(4,000)
Effects of changes in tax rates	-666	(889)
Changes in tax loss carryforward recognized	-4,361	303
Effects from the change of previously unrecognized temporary differences of former periods	1,176	933
Changes in valuation allowances relating to temporary differences (without loss carry forwards)	-1,403	1,529
	15,344	**(2,124)**
Total	**55,119**	**84,554**

The reconciliation from the computed tax expense according to the statutory corporate income tax rate in Austria of 25% (December 31, 2011: 25%) to the effective tax expense is presented below:

Tax reconciliation

EUR '000

	2012	2011
Income before tax	**236,043**	**351,949**
Calculated tax expense	59,011	87,987
Tax free income and tax allowances (in particular allowances for research and development)	(2,507)	(1,908)
Non-deductable expenses and withholding taxes	6,034	3,066
Income from investments in associates	(1,449)	(1,629)
Effect of different tax rates	(153)	(63)
Changes of tax rates	(666)	(889)
Tax income relating to prior periods	(10,825)	(3,556)
Exchange rate differences between functional and local currency	2,470	1,632
Change of unrecognized deferred tax assets from tax losses and other temporary differences	7,892	1,786
Tax effect of puttable non-controlling interest	(4,329)	40
Other	(360)	(1,912)
Effective tax expense	**55,119**	**84,554**

This corresponds to an average tax rate of 23.4% (2011: 24.0%).

The item “Tax expense relating to prior periods” includes a tax credit of TEUR 10,115 (2011: TEUR 5,066) from the tax group of B & C Industrieholding GmbH (refer to Note 44).

The Austrian subsidiaries of Lenzing Group are subject to an income tax rate of 25% (December 31, 2011: 25%). The applied income tax rates for foreign entities are between 16.5% and 34.0% (December 31, 2011: 12.5% and 34%).

Compared to the previous financial year, there was a change of the applicable tax rate in Great Britain from 26.0% to 24.0%. Starting in the 2013 financial year, a tax rate of 23.0% will apply, which was already used for calculating deferred taxes as at December 31, 2012 for deferred taxes.

Note 18

Earnings per share

Earnings per share are determined as follows:

Earnings per share EUR '000

	2012	2011
Profit attributable to shareholders of Lenzing AG used in the computation of earnings per share	175,624	258,671
Weighted average number of shares	**26,550,000**	**26,170,274**
	EUR	**EUR**
Diluted = undiluted	6,61	9,88

Notes on the consolidated statement of financial position, the statement of comprehensive income and the consolidated statement of changes in equity

Note 19

Intangible assets

Development

The value of intangible assets developed as follows:

Development of the intangible assets

2012	Goodwill	Concessions, industrial property rights and similar rights	Internally generated intangible assets	Total
Costs of acquisition and production				
01/01/2012	83,143	17,699	24,447	125,289
Currency translation adjustment	(1,052)	(5)	0	(1,056)
Additions	0	663	2,387	3,050
Disposals	0	(589)	0	(589)
Reclassification	0	(19)	0	(19)
Reclassification to assets held for sale	0	(41)	(12,438)	(12,479)
31/12/2012	**82,091**	**17,709**	**14,396**	**114,196**
Development of amortization				
01/01/2012	**(122)**	**(12,302)**	**(22,792)**	**(35,216)**
Currency translation adjustment	(2)	9	0	6
Depreciation	0	(653)	(382)	(1,035)
Impairments	0	(5)	0	(5)
Reclassification to assets held for sale	0	41	12,438	12,479
Disposals	0	553	0	553
31/12/2012	**(124)**	**(12,357)**	**(10,736)**	**(23,218)**
Carrying amount 01/01/2012	83,021	5,397	1,655	90,072
Carrying amount 31/12/2012	**81,967**	**5,351**	**3,660**	**90,978**

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Development of the intangible assets

2011	Goodwill	Concessions, industrial property rights and similar rights	Internally generated intangible assets	Total
Costs of acquisition and production				
01/01/2011	**80,948**	**16,567**	**24,180**	**121,694**
Currency translation adjustment	2,195	44	0	2,239
Additions	0	1,098	267	1,365
Disposals	0	(10)	0	(10)
31/12/2011	**83,143**	**17,699**	**24,447**	**125,289**
Development of amortization				
01/01/2011	**(36)**	**(11,589)**	**(22,390)**	**(34,015)**
Currency translation adjustment	(87)	(26)	0	(113)
Depreciation	0	(697)	(402)	(1,099)
Impairments	0	0	0	0
Disposals	0	10	0	10
31/12/2011	**(122)**	**(12,302)**	**(22,792)**	**(35,216)**
Carrying amount 01/01/2011	80,913	4,978	1,790	87,681
Carrying amount 31/12/2011	**83,021**	**5,397**	**1,655**	**90,072**

The above-mentioned additions of internally generated intangible assets to the amount of TEUR 2,387 (2011: TEUR 267) relate to additions from intra-group development. All other additions refer to additions from separate acquisitions.

Research and development expenditures

In the 2012 financial year, the Lenzing Group incurred research and development expenditures amounting to TEUR 18,246 (2011: TEUR 23,622). These R&D expenditures were determined in accordance with IFRS criteria. They encompasses costs related to the targeted search for new findings with respect to the development and material improvement of products, services and processes, and which arise within the context of research activities. They do not include any investments which must be capitalized, and take account of income from reimbursements (especially subsidies). The research and development expenditures are recognized in the earnings before interest and tax (EBIT) before restructuring.

Impairment losses

In the two periods under consideration, there was no need to recognize impairment losses on goodwill and trademarks with indefinite useful lives on the basis of the implemented impairment tests. With respect to other intangible assets, there were impairment losses in the 2012 financial year on the basis of the valuation of assets at fair value less costs to sell amounting to TEUR 5 (2011: TEUR 0), which are reported under “Result from restructuring” (refer to Notes 5 and 13).

There were no reversals of impairment losses in the two presented periods.

Goodwill and trademarks with indefinite useful lives

Goodwill and trademarks with indefinite useful lives are assigned to the following segments or cash generating units (CGU) at the reporting date:

Goodwill and trademarks with indefinite useful lives attributable to segments/CGUs — EUR ‘000

	31/12/2012	31/12/2011
Fibers		
CGU Fiber Site Indonesia	67,852	69,187
CGU Pulp Site Czech Republic	10,503	10,249
Other	3,389	3,362
	81,744	**82,798**
Plastics Products	**3,313**	**3,313**
Total	**85,057**	**86,111**

In the table shown above, trademarks with indefinite useful lives to the amount of TEUR 3,090 are assigned to the Segment Plastics Products at the reporting date. These trademarks are classified as featuring indefinite lives due to the fact that an end to their economic benefits cannot be foreseen. The other amounts apply exclusively to goodwill.

The recoverable amounts for the biggest goodwill-carrying cash generating units, the CGU Fiber Site Indonesia and the CGU Pulp Site Czech Republic, are calculated on the basis of the fair value less costs to sell employing the discounted cash flow method. The underlying methods and assumptions used are explained in Note 3, “Impairments”. The following individual as-sumptions are also relevant in the case of the CGU Fiber Site Indonesia and the CGU Pulp Site Czech Republic:

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Assumptions of the impairment test of the biggest goodwill carrying CGUs

	31/12/2012	31/12/2011
CGU Fiber Site Indonesia		
Time period for the cash flow forecast	6 years	4 years
Long-term growth rate for the perpetual annuity	3.1%	1.0%
Discount rate (WACC)	14.0%	14.5%
CGU Pulp Site Czech Republic		
Time period for the cash flow forecast	4 years	7 years
Long-term growth rate for the perpetual annuity	1.1%	1.0%
Discount rate (WACC)	9.0%	9.4%

The planning and forecasts relating to the cash flows of the CGU Fiber Site Indonesia are based particularly on internal assumptions about future sales prices and volumes, as well as production volumes of fibers and the required costs (especially for pulp and energy). They assume that sales growth will take place, especially as a result of planned capacity expansion measures. These internal assumptions are complemented by external market assumptions.

The planning and forecasts relating to the cash flows of the CGU Pulp Site Czech Republic are based particularly on internal assumptions about future sales prices and volumes, as well as production volumes of pulp and the required costs (especially for wood and energy). They as-sume that sales growth will take place, especially as a result of planned capacity expansion measures. These assumptions take account of assumptions derived from the downstream fiber business in the value chain.

The estimates of the fair value less costs to sell of the CGU Fiber Site Indonesia and the CGU Pulp Site Czech Republic are considered to be appropriate. However, changes in the assumptions or changed conditions could make it necessary to revise these estimates. The following chart shows hypothetical scenarios within the context of a sensitivity analysis concerning the main assumptions and potential changes in value on the reporting date, in which case the recoverable amount would correspond to the carrying amount plus goodwill.

Sensitivity analysis of the assumptions of the impairment test of the biggest goodwill carrying CGUs

	Key assumptions in value terms	Value-based changes of the key assumptions, where the recoverable amount would be equal to the carrying amount
CGU Fiber Site Indonesia		
Free cash flow	100%	minus 19.0%
Growth rate of the perpetual annuity	3.1%	minus 4.1 percentage points
Discount rate (WACC)	14.0%	plus 2.1 percentage points
CGU Pulp Site Czech Republic		
Free cash flow	100%	minus 15.3%
Growth rate of the perpetual annuity	1.1%	minus 1.5 percentage points
Discount rate (WACC)	9.0%	plus 1.1 percentage points

Note 20

Property, plant and equipment

Development

The value of the property, plant and equipment developed as follows:

Development of the property, plant and equipment EUR '000

2012	Land and buildings	Plants and machinery, fixtures, fittings and other assets	Assets under construction and Payments in advance	Total
Costs of acquisition and production				
01/01/2012	**371,167**	**1,844,978**	**122,073**	**2,338,218**
Currency translation adjustment	(808)	(4,091)	(2,220)	(7,118)
Additions	8,791	91,548	216,251	316,590
Disposals	(455)	(13,757)	0	(14,212)
Reclassification	20,058	119,019	(139,058)	19
Reclassification to assets held for sale	(3,188)	(32,374)	0	(35,562)
31/12/2012	**395,566**	**2,005,323**	**197,046**	**2,597,935**
Development of depreciation				
01/01/2012	**(172,410)**	**(1,074,585)**	**473**	**(1,246,521)**
Currency translation adjustment	(124)	1,892	(460)	1,309
Depreciation	(12,201)	(94,971)	0	(107,172)
Impairments	(0)	(17,204)	0	(17,204)
Reclassification	1	(1)	0	0
Reclassification to assets held for sale	3,188	29,374	0	32,562
Disposals	78	13,228	0	13,306
Write-ups	0	954	0	954
31/12/2012	**(181,468)**	**(1,141,311)**	**13**	**(1,322,766)**
Carrying amount 01/01/2012	198,757	770,393	122,547	1,091,697
Carrying amount 31/12/2012	**214,098**	**864,012**	**197,059**	**1,275,169**

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Development of the property, plant and equipment

EUR '000

2011	Land and buildings	Plants and machinery, fixtures, fittings and other assets	Assets under construction and Payments in advance	Total
Costs of acquisition and production				
01/01/2011	**339,687**	**1,710,898**	**84,587**	**2,135,172**
Currency translation adjustment	3,645	15,361	3,377	22,383
Additions	10,186	86,155	98,323	194,664
Disposals	(1,204)	(12,324)	(472)	(14,001)
Reclassification	18,854	44,888	(63,742)	0
31/12/2011	**371,167**	**1,844,978**	**122,073**	**2,338,218**
Development of depreciation				
01/01/2011	**(157,519)**	**(974,808)**	**(46)**	**(1,132,374)**
Currency translation adjustment	(564)	(6,174)	38	(6,701)
Depreciation	(11,141)	(90,478)	0	(101,619)
Impairments	(2,977)	(14,896)	0	(17,873)
Reclassification	(743)	261	481	0
Disposals	535	11,510	0	12,045
Write-ups	0	0	0	0
31/12/2011	**(172,410)**	**(1,074,585)**	**473**	**(1,246,521)**
Carrying amount 01/01/2011	182,168	736,089	84,541	1,002,798
Carrying amount 31/12/2011	**198,757**	**770,393**	**122,547**	**1,091,697**

Pledges or collateral security on property, plant and equipment or restrictions on disposal

Property, plant and equipment include fixed assets acquired under a finance lease contract (refer to Note 42).

Furthermore, collateral securities exist on property, plant and equipment for borrowings of the Group. Refer to Note 31 for details. The carrying amount of the fixed assets pledged as collateral for financial liabilities totals TEUR 258,517 (December 31, 2011: TEUR 264,622).

Contractual obligations for the acquisition of property, plant and equipment

Obligations relating to open purchase orders for the delivery of property, plant and equipment amounted to TEUR 119,977 as at December 31, 2012 (December 3, 2011: TEUR 105,464).

Capitalization of borrowing costs

During the 2012 financial year, borrowing costs for property, plant and equipment to the amount of TEUR 3,171 (2011: TEUR 304) were capitalized. Capitalization rates ranging from 2.23% to 2.91% were used (2011: weighted average of 2.7%).

Impairments

Due to the valuation of assets at fair value less costs to sell, impairment losses were recognized on property, plant and equipment in the 2012 financial year to the amount of TEUR 17,203 (2011: TEUR 0) and reported under "Result from restructuring" (refer to Notes 5 and 13).

Due to impairment tests carried out on property, plant and equipment, impairment losses totaling TEUR 0 (2011: TEUR 17,873) were recognized on property, plant and equipment and reported under "Amortization of intangible assets and depreciation of property, plant and equipment". In the 2011 financial year, material impairments on property, plant and equipment primarily related to technical plant and machinery as well as buildings. These impairment losses were necessary due to technical and economic obsolescence as well as reduced profitability. They arose in the Segments Plastics Products (TEUR 13,322) and Fibers (TEUR 4,551).

In the 2012 financial year, reversals of impairment losses on property, plant and equipment totaling TEUR 954 (2011: TEUR 0) were recognized under "Amortization of intangible assets and depreciation of property, plant and equipment". The reversals of impairment in the 2012 financial year relate to technical plant and machinery. They were necessitated on the basis of increased profitability of previously impaired property, plant and equipment as well as adjustments to the costs of purchase.

All impairment losses and reversals of impairment are recognized on the basis of internal estimates of their recoverable amount.

Note 21

Investments in associates

Investments in associates comprises the following:

Carrying amount for investments in associates EUR '000

	31/12/2012	31/12/2011
EQUI-Fibres Beteiligungsgesellschaft mbH	30,188	26,330
Lenzing Papier GmbH	0	0
RVL Reststoffverwertung Lenzing GmbH	37	36
PT Pura Golden Lion	3,632	3,167
Wood Paskov s.r.o.	26	23
WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H.	728	733
LKF Tekstil Boya Sanayi ve Tikaret A.S.	0	0
Total	**34,611**	**30,289**

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These investments have developed as follows:

Development of the carrying amount of investments in associates EUR '000

	2012	2011
Balance at 1/1	30,289	24,738
Income from investments in associates	5,796	6,472
Share in other comprehensive income of associates	(592)	0
Currency translation adjustment	(107)	40
Dividends	(775)	(961)
Balance at 31/12	**34,611**	**30,289**

The financial position and financial performance of these associates are as follows (in each case 100%, therefore not adjusted to the respective at-equity share held by the Lenzing Group):

Financial position and financial performance of associates EUR '000

	EQUI	LPP[1]	RVL	PGL[1]	LWP	WWE	LKF[2]
2012							
Sales	181,041	73,522	11,992	0	339	0	0
Net income/loss	9,904	1,037	1	3,329	11	(20)	0
31/12/2012							
Non-current assets	71,884	8,566	0	2,604	27	0	0
Current assets	61,022	20,545	79	1,724	146	2,995	0
Non-current liabilities	21,860	7,717	0	0	22	0	0
Current liabilities	41,895	17,349	6	109	106	84	0
Government grants	2,328	11	0	0	0	0	0
Equity	66,823	4,034	73	4,219	45	2,911	0

Financial position and financial performance of associates (prior year) EUR '000

	EQUI	LPP[1]	RVL	PGL[1]	LWP	WWE	LKF[1]
2011							
Sales	178,193	66,196	10,875	0	292	0	0
Net income/loss	13,597	(3,005)	1	867	2	(7)	(31)
31/12/2011							
Non-current assets	65,195	8,859	0	2,635	36	0	1
Current assets	67,928	18,892	82	803	99	2,995	2,006
Non-current liabilities	22,065	11,192	0	0	29	0	0
Current liabilities	50,692	13,292	9	108	73	64	1,860
Government grants	2,117	13	0	0	0	0	0
Equity	58,250	3,253	73	3,330	33	2,931	147

[1] preliminary [2] not available by the time these consolidated financial statements were prepared

Note 22

Financial assets

Financial assets consist of the following:

Financial assets EUR '000

	31/12/2012	31/12/2011
Non-current securities	53,847	90,948
Loans	2,221	2,682
Total	**56,068**	**93,630**

Non-current securities are generally measured at current stock exchange prices or other market prices (especially the notional values in investment funds) and comprise the following:

Non current securities by asset classes EUR '000

2012	Market value 31/12	Average effective interest rate in %	Income for the business year
Government bonds	27,160		
Other bonds	18,690		
Other securities and non securitized rights (thereof investments EUR 19 thousand)	7,998		
Total	**53,847**	**2.38**	**1,019**

Non current securities by asset classes (prior year) EUR '000

2011	Market value 31/12	Average effective interest rate in %	Income for the business year
Government bonds	36,723		
Other bonds	46,854		
Other securities and non securitized rights (therof investmens EUR 13 thousand)	7,371		
Total	**90,948**	**1.92**	**1,062**

The main government bonds are federal bonds issued by the Republic of Austria to the amount of TEUR 10,800 (December 31, 2011: TEUR 10,889) and bonds issued by the Federal Republic of Germany totaling TEUR 12,154 (December 31, 2011: TEUR 11,854). Bonds of other issuers refer to bank bonds of TEUR 2,124 (December 31, 2011: TEUR 20,475) and corporate bonds amounting to TEUR 16,257 (December 31, 2011: TEUR 26,379). Other securities and non-securitized rights mainly refer to shares.

Loans amounting to TEUR 2,221 (December 31, 2011: TEUR 2,682) exclusively comprise loans to third parties.

Note 23

Other non-current assets

Other non-current assets comprise the following:

Other non-current assets — EUR '000

	31/12/2012	31/12/2011
Other non-current financial assets		
Share held in a non-consolidated company	1,150	1,150
Derivative financial instruments (open positions)	162	0
Long-term receivables	1,731	7,928
	3,043	**9,078**
Other non-current assets (non-financial)		
Receivables from taxes	13,977	0
Prepaid expenses and deferred costs	221	233
	14,199	**233**
Total	**17,241**	**9,311**

Note 24

Inventories

Inventories consist of the following:

Inventories — EUR '000

	2012	2011
Raw materials and supplies	188,552	181,960
Work in progress	10,332	11,270
Finished goods and merchandise	98,919	89,566
Down payments	1,776	1,781
Total	**299,580**	**284,577**

The raw materials and supplies mainly comprise beech wood for pulp production, pulp and chemicals for cellulose fiber production, plastic granules as well as various small parts and re-placement parts.

Finished goods and merchandise and work in progress encompass Lenzing Viscose®, Lenzing Modal® (including Lenzing FR®-) and TENCEL® cellulose fibers, sodium sulfate, acetic acid, furfural, plastics products as well as products of the segment Lenzing Technik.

In the 2012 financial year, write-downs of inventories of TEUR 1,585 (2011: TEUR 2,261) were recognized as an expense. The carrying amount of the inventories recognized at their net realizable value totaled TEUR 146,853 (December 31, 2011: 125,293 TEUR). Expenses for inventories are mainly recognized under the item "Cost of material and other purchased services." Inventories recognized as cost of material during the reporting period totaled TEUR 1,157.902 (2011: TEUR 1,143.472).

The carrying amount of the inventories pledged as security for financial liabilities amounts to TEUR 66,610 (December 31, 2011: TEUR 66,363).

Note 25

Trade receivables

Trade receivables consist of the following:

Trade receivables EUR '000

	31/12/2012	31/12/2011
Trade receivables (gross)	269,361	241,727
Provisions for doubtful accounts	(7,857)	(7,950)
	261,504	**233,776**
Amounts due from customers for long-term construction contracts	3,012	2,988
Total	**264,516**	**236,764**

The carrying amount of trade receivables pledged or assigned as collateral security for financial liabilities or trade receivables amounted to TEUR 0 (December 31, 2011: TEUR 65,722). These pledged or assigned receivables mainly relate to export receivables assigned to customers with impeccable credit ratings in order to secure loans. These receivables are fully recognized, and the cash received is reported as secured loans.

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Note 26

Construction contracts

Construction contracts

EUR '000

	31/12/2012	31/12/2011
Aggregate amount of costs incurred up to the reporting date	4,413	3,535
Aggregate amount of accrued profits up to the reporting date	806	789
Aggregate amount of incurred losses up to the reporting date	(147)	(67)
Amounts due from customers for contract work (gross)	**5,072**	**4,257**
Less amount of advances received	(2,061)	(1,269)
Amounts due from customers for contract work (net)	**3,012**	**2,988**
thereof financial retentions	0	0
Total advances received	3,433	2,232
thereof presented as part of down-payments included in other current liabilities (non-financial)	1,372	963
thereof presented as part of trade receivables	2,061	1,269

Revenues from long-term construction contracts amounted to TEUR 26,321 in the 2012 financial year (2011: 25,373).

Note 27

Other current assets

Other current assets consist of the following:

Other current assets — EUR '000

	31/12/2012	31/12/2011
Other current financial assets		
Down payments for derivatives and closed positions	2,081	2,472
Derivative financial instruments (open positions)	5,538	16
Puttable non-controlling interests	12,601	0
Debit balances on creditors	1,921	2,715
Recharge of maintenance costs	5,000	5,075
Insurance compensation	529	0
Other	5,390	11,692
Carrying amount 31/12	**33,058**	**21,971**
Other current assets (non-financial)		
Tax receivables	42,012	27,354
Payments in advance	5,693	7,055
Emission certificates	4,477	4,936
Prepaid expenses and deferred costs	3,142	3,061
Other	531	0
Carrying amount 31/12	**55,856**	**42,406**
Total	**88,914**	**64,377**

Note 28

Current securities

Current securities comprise short-term money market investments in the form of bonds, which are available for sale at any time. They comprised the following:

Current securities after asset class — EUR '000

	Market Value		Average yield in %	
	31/12/2012	31/12/2011	2012	2011
Bonds	0	6,748	-	1.50%

Note 29

Equity

Share capital and capital reserves

The share capital of Lenzing AG as at December 31, 2012 amounted to EUR 27,574,071.43 (December 31, 2011: 27,574,071.43), and is divided into a total of 26,550,000 no par value shares (December 31, 2011: 26,550,000 shares). The proportion of the share capital allotted to one no par value share amounts to approximately EUR 1.04. Each ordinary share is of equal value and conveys the same rights and obligations, in particular the right to be paid approved dividends and voting rights at the Shareholders' Meeting. The share capital is paid in full. No other classes of shares have been issued.

The resolution passed by the Shareholders' Meeting held on December 10, 2010 authorized the Management Board to increase the share capital, with the consent of the Supervisory Board, by a maximum of EUR 13,358,625.00 (corresponding to 12,862,500 ordinary shares or 50% of the share capital as at December 31, 2010) within a period of five years, against contributions in cash or in kind, if necessary in tranches ("authorized capital").

Effective June 17, 2011 (first day of trading of the newly issued shares), Lenzing AG carried out a capital increase approved by the Extraordinary Shareholders' Meeting held on December 10, 2010. A total of 825,000 new shares were issued. The share capital was fully paid.

Furthermore, the Management Board was authorized, on the basis of the resolution passed by the Shareholders' Meeting of December 10, 2010 to issue, with the approval of the Supervisory Board, convertible bonds which grant subscription rights or a conversion obligation on up to 12,862,500 ordinary shares (corresponding to 50% of the share capital as at December 31, 2010) no later than December 9, 2015 ("conditional capital"). Following implementation of the capital increase in the financial year 2011, the number of subscribed shares to be issued was reduced to 12,037,500.

The capital reserves comprise an appropriated reserve of Lenzing AG which may only be used to offset accumulated losses of Lenzing AG. These reserves are composed of shareholder funds paid in to Lenzing AG in excess of the share capital.

Other reserves

The item other reserves contains all other accumulated comprehensive income, and comprises the foreign currency translation reserve, the reserve for available-for-sale financial assets, the hedging reserve and actuarial gains and losses. The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of consolidated subsidiaries in a foreign currency to the EUR, the group currency. The reserve for available-for-sale financial assets comprises the valuation gains/losses from the related assets less deferred tax, which were not recognized in profit or loss. The hedging reserve comprises the effective portion of the cash flow hedging relationships less deferred tax up until the underlying transaction is recognized in profit or loss. Actuarial gains and losses comprise the effects from the valuation of pensions and similar obligations less deferred tax which are not recognized in profit or loss.

The amounts relating to items of other comprehensive income comprise the following:

Other comprehensive income EUR '000

	2012			2011		
	before taxes	tax effect	after taxes	before taxes	tax ef-fect	after taxes
Currency translation	(4,236)	0	(4,236)	17,287	0	17,287
Subsequent measurement of available-for-sale financial assets	494	(124)	371	930	(232)	697
Cash flow hedge	24,819	(5,901)	18,918	(24,787)	5,962	(18,825)
Actuarial gains/losses on defined benefit plans	(16,325)	4,079	(12,246)	(5,222)	1,275	(3,947)
Share in other comprehensive income of associates	(592)	0	(592)	0	0	0
	4,160	**(1,946)**	**2,214**	**(11,793)**	**7,005**	**(4,788)**

The reserve designed to secure cash flows (hedging reserve) developed as follows:

Change of the hedging reserve EUR '000

	2012	2011
Income/expenses from cash flow hedges recognized in the reporting period		
from gas swaps	503	(398)
from currency forward contracts	7,554	(8,571)
from other derivative financial instruments	0	0
	8,057	**(8,969)**
Reclassification to income statement of amounts related to cash flow hedges		
from gas swaps	630	(2,396)
from currency forward contracts	15,946	(13,607)
from other derivative financial instruments	185	185
	16,762	**(15,818)**
Total	**24,819**	**(24,787)**

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Retained earnings

Retained earnings (excluding other reserves) comprised the following:

Retained earnings EUR '000

	31/12/2012	31/12/2011
Retained earnings of Lenzing AG	257,447	257,447
Accumulated profit of Lenzing AG	147,111	133,734
Retained earnings of the subsidiaries and effects of adjusting the financial statements of Lenzing AG and its subsidiaries to IFRS	548,703	451,735
Total (without other reserves)	**953,261**	**842,916**

The free retained earnings of Lenzing AG can be released at any time, and can be distributed to shareholders as part of the balance sheet profit.

Under Austrian law, only the balance sheet profit of the parent company as presented in the approved annual financial statements according to the Austrian Commercial Code (UGB) can be distributed as a dividend to shareholders.

The following dividends were approved and paid to the shareholders of Lenzing AG:

Approved and paid dividends of Lenzing AG

	Total	Number of shares	Dividend per share
	EUR '000		EUR
Dividend approved in the Annual General Meeting on April 19, 2012 for financial year 2011 (payment April 25, 2012)	66,375	26,550,000	2.50
Dividend approved in the Annual General Meeting on March 29, 2011 for financial year 2010 (payment April 1, 2011)	39,874	25,725,000	1.55

The Management Board makes the following proposal for the distribution of the balance sheet profit 2012 as presented in the annual financial statements of Lenzing AG according to the Austrian Commercial Code (UGB):

Proposal for distribution of profit 2012 EUR '000

The business year 2012 of Lenzing AG ends with a net income under austrian law (Austrian Commercial Code) of	79,752
After adding the amount carried forward from 2011 of	67,359
Accumulated balance sheet profit	147,111
The Board of Management proposes the following distribution of profit: Payment of a dividend of EUR 2,50 per share of dividend-bearing capital stock of EUR 27,574,071,43 respectively 26,550,000 shares	53,100
Carried forward to new account	**94,011**

The dividend proposed by the Management Board is subject to the approval of shareholders at the Shareholders' Meeting. For this reason, it is recognized in equity at the reporting date.

Dividends are generally subject to the deduction of a capital gains tax of 25%. This covers the income tax for individuals with unlimited tax liability (final taxation). Entities with unlimited tax liability holding at least 10% of the share capital are exempt from the capital gains tax. Double taxation agreements must be observed in the event of limited tax liability.

Payment of dividends to the shareholders of Lenzing AG does not affect the income taxes imposed on the company.

Note 30

Government grants

The amount presented under this item mainly comprises grants received from the public sector to promote investment in economically underdeveloped regions and investments in environmental protection projects and other grants aimed at stimulating capital expenditure, such as the investment premium.

During the reporting period, government grants amounting to TEUR 8,604 (2011: TEUR 5,945) and recognized in profit or loss primarily related to funds designed to promote research activities.

Due to the fact that the conditions attached to these grants are being fulfilled, it is considered unlikely that even part of the grants will have to be repaid.

The public subsidies also include the market value of the emission certificates at TEUR 1,720 as at December 31, 2012 (December 31, 2011: TEUR 1,193). On the basis of the Directive 2003/87/EC of the European Parliament and the European Council establishing a scheme for greenhouse gas emission certificate trading, a total of 341,780 emission certificates were allocated to the Lenzing Group free of charge for the year 2012 as part of the national allocation plans for the affected companies (2011: 328,156 emission certificates). The number of emission certificates developed as follows:

Development of the emission certificates — Units

	2012	2011
Balance as at 1/1	**431.703**	**362.400**
Allocation for the year	341.780	328.156
Returned due to actual emissions of the prior year	(251.641)	(278.853)
Net-purchases and -sales during the year	20.000	20.000
Balance as at 31/12	**541.842**	**431.703**

As at December 31, 2012, there was no lack of emission certificates for the Lenzing Group. As at December 31, 2011, a provision of TEUR 149 was set aside to cover the shortfall of emission certificates.

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Note 31

Financial liabilities

Financial liabilities as at December 31, 2012 comprise the following:

Financial liabilities EUR '000

31/12/2012	Currency	Nominal amount	Carrying amount	Average effective interest rate in %
Bond				
Fixed interest	EUR	120,000	119,504	3.91
			119,504	
Private placement				
Fixed interest	EUR	110,500	110,112	3.07
Variable interest	EUR	89,500	89,091	1.88
			199,202	
Liabilities with banks				
Loans:				
Fixed interest	EUR	72,384	72,384	3.69
Variable interest	EUR	212,070	211,556	1.72
Variable interest	USD	213,333	159,490	2.79
Variable interest	CNY	170,480	20,747	6.49
Working capital loans[1]:				
Variable interest	EUR	0	0	0.00
Variable interest	CNY	450,000	54,764	6.54
			518,940	
Lease payables				
Fixed interest	EUR	1,831	1,831	4.00
			1,831	
Other loans				
Fixed interest	EUR	3,152	3,152	1.73
Fixed and variable interest	EUR	30,139	30,139	1.32
Variable interest	EUR	79	79	1.00
Variable interest	USD	3,011	2,283	2.75
			35,654	
Total			**875,132**	
thereof short-term			173,568	
thereof long-term			701,565	

[1] Revolving credit facilities and current accounts

Financial liabilities (prior year) EUR '000

31/12/2011	Currency	Nominal amount	Carrying amount	Average effective interest rate in %
Bond				
Fixed interest	EUR	120,000	119,400	3.91
			119,400	
Liabilities with banks				
Loans:				
Fixed interest	EUR	92,778	92,778	3.85
Variable interest	EUR	191,986	191,986	2.38
Variable interest	USD	168,640	130,378	2.72
Variable interest	CNY	311,500	38,262	6.01
Working capital loans[1]:				
Variable interest	EUR	19,860	19,860	1.58
Variable interest	CNY	150,000	18,425	7.23
			491,689	
Lease payables				
Fixed interest	EUR	1,781	1,781	4.00
			1,781	
Other loans				
Fixed interest	EUR	2,098	2,098	2.10
Fixed and variable interest	EUR	33,840	33,840	1.40
Variable interest	EUR	1,814	1,814	3.23
Variable interest	USD	2,921	2,258	2.72
			40,010	
Total			**652,880**	
thereof short-term			134,359	
thereof long-term			518,521	

In the 2010 financial year, the Lenzing Group issued a seven-year corporate bond featuring a fixed interest rate of 3.875% and a nominal value of TEUR 120,000. The bond is due on September 27, 2017.

In the 2012 financial year, the Lenzing Group issued and placed private placement to the amount of TEUR 200,000, featuring terms to maturity of four and seven years, with fixed and variable interest rates respectively, as well as with a term to maturity of ten years, but only at a fixed interest rate. The average term to maturity is six years. The average effective interest rate is detailed in the chart above.

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

[1] Revolving credit facilities and current accounts

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The terms and conditions relating to loans granted under revolving lines of credit are fixed for a specified period of time and are generally subject to variable interest rates.

Other loans mainly consist of loans granted by the Austrian Research Promotion Fund and the ERP Fund as well as loans from non-controlling shareholders.

The reported financial liabilities include TEUR 176,740 (December 31, 2011: TEUR 215,756) in liabilities secured by mortgages and other collateral securities as well as TEUR 0 (December 31, 2011: TEUR 14,742) secured by receivables. In financing the acquisition price for the shares obtained in Biocel Paskov a.s., its shares were pledged as collateral.

Note 32

Deferred taxes (deferred tax assets and liabilities)

Deferred tax assets and liabilities relate to the following items in the consolidated statement of financial position:

Deferred tax assets

EUR '000

	31/12/2012	31/12/2011
Intangible assets	13	15
Property, plant and equipment	348	1,942
Financial assets	3,608	4,930
Other assets	6,635	9,467
Provisions	14,208	14,779
Government grants	202	166
Other liabilities	1,507	3,646
Tax loss carry forwards	8,673	8,957
	35,194	**43,903**
Valuation allowance on deferred tax asset	(4,224)	(10,298)
thereof tax loss carry forwards	(3,176)	(7,756)
Total deferred tax assets	**30,970**	**33,605**
Offset against deferred tax liabilities	(24,525)	(22,834)
Net deferred tax assets	**6,445**	**10,771**

Deferred tax liabilities

EUR '000

	31/12/2012	31/12/2011
Intangible assets	1,513	965
Property, plant and equipment	52,561	39,160
Other assets	466	3,371
Accelerated depreciation for taxation purposes	4,782	4,889
Provisions	116	0
Government grants	2,105	2,246
Other liabilities	3,938	401
	65,480	**51,032**
Offset against deferred tax assets	(24,525)	(22,834)
Net deferred tax liabilities	**40,955**	**28,197**

Of the deferred tax assets, TEUR 10,552 (December 31, 2011: TEUR 19,552) are due within one year. Of the deferred tax liabilities, a total of TEUR 782 (December 31, 2011: TEUR 3,371) are due within a period of one year.

In the 2012 financial year, subsidiaries which generated losses in 2012 or in the previous year recognized net deferred tax assets on temporary differences and tax loss carryforwards to the amount of TEUR 3,231 (2011: TEUR 100). These assets were considered to be unimpaired because the companies involved were expected to generate taxable income in the future.

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The deferred taxes developed as follows:

Development of the deferred taxes

	Balance as at 1/1/2011	Recognized in profit or loss	Recognized in other compre-hensive income	Currency translation adjustment
Intangible assets	(370)	(576)	0	(3)
Property, plant and equipment	(34,345)	(2,838)	0	(34)
Financial assets	6,975	(1,813)	(232)	0
Other assets	(1,755)	6,749	1,126	(23)
Accelerated depreciation for tax purposes	(6,713)	1,825	0	0
Provisions	12,983	310	1,272	214
Government grants	(459)	(1,626)	0	6
Other liabilities	(4,827)	3,196	4,839	36
Tax loss carry forwards	10,785	(1,931)	0	104
Provisions for doubtful accounts	(8,996)	(1,171)	0	(131)
Total	**(26,723)**	**2,123**	**7,004**	**170**

In the Lenzing Group, income tax loss carryforwards amounted to TEUR 38,332 as at December 31, 2012 (excluding the tax loss carryforwards of the disposal group EPG; December 31, 2011: TEUR 33,041). The existing tax loss carryforwards can be used as follows:

Tax loss carry forwards (tax base) EUR '000

	31/12/2012	31/12/2011
Total	**38,332**	**33,041**
thereof capitalized tax loss carry forwards	**24,112**	**4,108**
thereof tax loss carry forwards not capitalized	**14,220**	**28,933**
possible expiration of tax loss carry forwards not capitalized		
within 1 year	0	0
within 2 years	0	0
within 3 years	40	0
within 4 years	38	39
within 5 years	31	37
Tax loss carry forwards not subject to expiration	14,111	28,857

In addition to the amounts listed above, the disposal group EPG also contains tax loss carryfowards which have not been capitalized as at December 31, 2012, which correspond to a tax base of TEUR 49,946.

EUR '000

Balance as at 31/12/2011 = 1/1/2012	Recognized in profit or loss	Recognized in other compre-hensive income	Reclassification to liabilities held for disposal and disposal groups	Currency translation adjustment	Balance as at 31/12/2012
(950)	(551)	0	0	0	(1,500)
(37,218)	(15,273)	0	0	278	(52,213)
4,930	(1,198)	(124)	0	0	3,608
6,096	1,499	(1,387)	0	(38)	6,169
(4,889)	107	0	0	0	(4,782)
14,779	(4,572)	4,062	(31)	(145)	14,093
(2,079)	177	0	0	(1)	(1,903)
3,245	(1,213)	(4,493)	0	30	(2,431)
8,957	14,219	0	(14,707)	204	8,673
(10,298)	(8,540)	(5)	14,738	(121)	(4,224)
(17,426)	**(15,344)**	**(1,946)**	**0**	**207**	**(34,510)**

Restrictions exist on the economic utilization of tax loss carryforwards which are not capitalized. If the tax loss carryforwards could have been used to the full amount, theoretically deferred tax assets on tax loss carryforwards to the amount of TEUR 8,673 (December 31, 2011: TEUR 8,957) would have had to be recognized (excluding non-capitalized tax loss carryforwards of the disposal group EPG) instead of the sum of TEUR 5,497 (December 31, 2011: TEUR 1,201).

With respect to deferred tax assets, the item financial assets includes the outstanding one-seventh shares of the write-downs on investments in other companies in accordance with Section 12 Para. 3 (2) of the Austrian Corporate Income Tax Act, which total TEUR 10,254 (December 31, 2011: TEUR 13,982). In the 2012 financial year, one-seventh shares amounting to TEUR 3,728 were written down (2011: TEUR 3,728).

In the 2011 financial year, the costs relating to the capital increase of TEUR 6,298 less the resulting tax effects of TEUR 1,575 were recognized directly in equity.

No deferred tax liabilities were recognized on temporary differences in relation to investments in subsidiaries and associates held by Group subsidiaries amounting to TEUR 194,070 (December 31, 2011: TEUR 109,001). This can be attributed to the fact that the Lenzing Group can manage the timing of the reversal of the temporary differences, and the temporary differences are unlikely to be reversed in the foreseeable future.

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Note 33

Provisions

The provisions set aside by the Lenzing Group comprise of the following:

Provisions

EUR '000

	total		thereof current		thereof non-current	
Pension provisions and similar liabilities	**31/12/2012**	**31/12/2011**	**31/12/2012**	**31/12/2011**	**31/12/2012**	**31/12/2011**
Severance payments	64,420	54,803	2,239	1,960	62,181	52,843
Pensions	34,808	31,143	2,018	1,922	32,790	29,221
Anniversary bonuses	13,774	12,075	1,346	1,021	12,429	11,054
	113,002	**98,021**	**5,602**	**4,903**	**107,400**	**93,119**
Other provisions						
Guarantees and warranties	12,294	22,919	1,494	9,619	10,800	13,300
Anticipated losses and other risks	7,918	22,872	3,371	16,437	4,546	6,435
Emission certificates	2,757	3,828	2,757	3,828	0	0
Other	21,212	33,642	3,912	33,642	17,300	0
	44,181	**83,262**	**11,535**	**63,527**	**32,646**	**19,735**
Accruals						
Personnel expenses (non-financial)	37,709	46,766	37,709	46,766	0	0
Other (financial)	26,798	29,293	26,798	29,293	0	0
	64,507	**76,059**	**64,507**	**76,059**	**0**	**0**
Total	**221,690**	**257,343**	**81,644**	**144,489**	**140,046**	**112,854**

Pension provisions and similar liabilities

Pension provisions

Defined benefit pension plans

The amounts presented in the consolidated statement of financial position relating to obligations from defined benefit pension plans are derived as follows:

Funded status and carrying amount of defined benefit pension plans EUR '000

	31/12/2012	31/12/2011
Present value of obligation (DBO)	39,551	38,443
Fair value of plan assets	(4,708)	(7,209)
Deficit in plan	**34,843**	**31,233**
Unrecognized past service cost	(35)	(90)
Net amount recognized in the statement of financial position	**34,808**	**31,143**
Presented as:		
Non-current provision	32,790	29,221
Current provision	2,018	1,922
Total	34,808	31,143

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

Development of the defined benefit pension plans — EUR '000

	2012	2011
Present value of obligation (DBO) as at 1/1	**38,443**	**35,292**
Interest Cost	1,864	1,812
Current Service Cost	800	601
Actuarial gains (+)/losses (-)	6,972	3,461
Benefits paid	(2,955)	(2,979)
Cost of plan settlements	471	0
Plan settlements	(5,255)	0
Currency translation adjustment	(856)	256
Assumed obligations	108	0
Reclassification to liabilities held-for-sale and disposal groups	(41)	0
Present value of obligation (DBO) as at 31/12	**39,551**	**38,443**
Fair value of plan assets as at 1/1	**7,209**	**7,363**
Contributions	2,904	196
Administrative and other costs	(1)	(1)
Expected return on plan assets	295	423
Actuarial gains (+)/losses (-)	6	(501)
Benefits paid	(431)	(408)
Plan settlements	(5,255)	0
Currency translation adjustment	(20)	137
Fair value of plan assets as at 31/12	**4,708**	**7,209**

The defined benefit plans in the USA were settled in the 2012 financial year, and pension contributions were either paid directly to the beneficiaries as one-off payments, or compensation was made for the purchase of individual pension schemes of an external pension fund. Additional expenses to the amount of TEUR 2,570 were incurred to completely compensate for the respective pension benefits. The resulting expenditures from the planned compensation amounted to TEUR 471.

The most important actuarial assumptions applied are as follows:

Actuarial assumptions

Actuarial assumptions	31/12/2012	31/12/2011
Discount rate p.a. in %		
Austria	3.5	4.5
Germany	3.5	4.5
USA	n/a	4.6
Indonesia	6.0	7.5
Hong Kong	0.6	1.5
Estimated future salary and pension increases p.a. in %		
Austria	2.5-3.0	2.5-3.0
Germany	2.0-2.5	2.0-2.5
USA	n/a	0.0
Indonesia	7.5	8.0
Hong Kong	5.5	4.0
Expected rate of return on plan assets p.a. in %		
Austria	4.7	4.7
Germany	n/a	n/a
USA	n/a	7.5
Indonesia	n/a	n/a
Hong Kong	6.0	6.0

The expected yields from plan assets are determined by the portfolio structure of the plan assets, empirical values from the past and expected returns in the future.

The biometric assumptions used for Lenzing AG and its subsidiaries are based on the following mortality tables:

Biometric determination bases

Austria	AVÖ 2008-P "Angestellte" (Pagler & Pagler)
Germany	Guidance tables 2005 G (Prof. Dr. Klaus Heubeck)
Indonesia	Tabel Mortalita Indonesia (TMI '99)
Hong Kong	Because of the low number of claimants no demographic assumptions have been made

The plan assets are classified according to asset values as follows:

Plan assets

EUR '000

	2012	2011
Equity instruments	728	604
Debt instruments	208	2,532
Insurance policies qualifying as plan assets	3,763	3,876
Other assets	9	198
Balance as at 31/12	**4,708**	**7,209**

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The following amounts are recognized in the consolidated income statement with respect to these plans:

Expenses for defined benefit pension plans — EUR '000

	2012	2011
Interest cost	1,864	1,812
Current service cost	800	601
Past service cost	52	52
Administrative and other costs	1	1
Expected return on plan assets	(295)	(423)
Cost of plan settlements	471	0
Total	**2,892**	**2,042**

These amounts are reported under personnel expenses as "Pension expenses".

The actual return from the plan assets amounted to TEUR 302 (2011: losses of TEUR 78).

The actuarial gains and losses recognized in other comprehensive income developed as follows:

Development of the actuarial gains/losses — EUR '000

	2012	2011
Actuarial gains (+)/losses (-) as at 1/1	**(13,639)**	**(9,678)**
Actuarial gains (+)/losses (-) for the financial year	(6,966)	(3,962)
Plan settlements	2,469	0
Actuarial gains (+)/losses (-) as at 31/12	**(18,137)**	**(13,639)**

According to the funding status, the present value of the obligations relating to defined benefit pension plans comprises of the following:

Actuarial projected benefit obligation and funding status of funded and unfunded defined benefit pension plans — EUR '000

	31/12/2012	31/12/2011
Present value of defined benefit obligation (DBO) of funded plans - gross	27,701	29,112
Market value of the plan assets	(4,708)	(7,209)
Present value of defined benefit obligation (DBO) of funded plans - net	22,993	21,902
Present value of defined benefit obligation (DBO) of unfunded plans	11,850	9,331
Actuarial projected benefit obligation	**34,843**	**31,233**

The development of the present value of the obligations relating to defined benefit pension plans over a period of time is as follows:

History of pension obligations

EUR '000

	2012	2011	2010	2009	2008
Present value of defined benefit obligation (DBO)	39,551	38,443	35,292	37,480	37,997
Fair value of plan assets	(4,708)	(7,209)	(7,363)	(7,391)	(6,951)
Deficit	**34,843**	**31,233**	**27,929**	**30,089**	**31,046**
thereof shortfall	34,843	31,233	27,994	30,149	31,046
thereof coverage	0	0	65	60	0
Experience adjustments (gain (+)/(loss (-)):					
on present value of obligation (DBO)	(2,905)	(1,825)	622	362	(1,527)
on plan assets	7	(475)	(17)	339	(1,038)

The Group expects to make contributions of TEUR 43 in the coming year (2011: TEUR 308) to the defined benefit plans during the next business year.

Defined contribution plans

Expenses amounting to TEUR 3,031 were incurred in the 2012 financial year for defined contribution plans (2011: TEUR 2,572).

Provisions for severance payments

Defined benefit plans

The following table shows the development of the provision:

Development of provisions for severance payments

EUR '000

	2012	2011
Present value of obligation (DBO) as at 1/1	**54.803**	**53.479**
Interest cost	2.395	2.341
Current service cost	2.425	2.370
Total expense	**4.819**	**4.711**
Benefits paid	(4.593)	(4.619)
Actuarial gains (+)/losses (-)	9.360	1.262
Currency translation adjustment	29	(29)
Present value of obligation (DBO) as at 31/12	**64.420**	**54.803**
Number of eligible persons	2.261	2.317

The most important actuarial parameters applied are as follows:

Actuarial assumptions

Actuarial assumptions	31/12/2012	31/12/2011
Discount rate in % p.a.	3.5	4.5
Estimated future salary increases in % p.a.	3.0	3.0

The calculations used to determine severance payments for Lenzing AG and its subsidiaries are based on following demographic assumptions:

Biometric determination bases

Austria	Withdrawal rates determined in-house
Czech Republic	AVÖ 2008 (Pagler & Pagler)

These expenses are reported in the consolidated income statement under the item personnel expenses as “Expenses for severance payments“.

The actuarial gains and losses recognized in other comprehensive income developed as follows:

Development of the actuarial gains/losses

EUR ‘000

	2012	2011
Actuarial gains (+)/losses (-) as at 1/1	**(6,972)**	**(5,710)**
Actuarial gains (+)/losses (-) for the year	(9,360)	(1,262)
Actuarial gains (+)/losses (-) as at 31/12	**(16,332)**	**(6,972)**

The development of the provision for severance payments over a period of time was as follows:

History of obligations for severance payments

EUR ‘000

	2012	2011	2010	2009	2008
Present value of defined benefit obligation (DBO)	64,420	54,803	53,479	51,549	55,215
Experience adjustments (gains (+)/losses (-)) on present value of obligation (DBO)	(2,781)	(1,278)	(840)	(138)	(3,505)

Defined contribution plans

For defined contribution plans within the context of Austria's statutory system for severance payments, contributions by Lenzing amounted to TEUR 994 in 2012 (2011: TEUR 793).

Provisions for anniversary bonuses

The following chart shows the development of this provision:

Development of provisions for anniversary bonuses EUR '000

	2012	2011
Present value of obligation (DBO) as at 1/1	**12,075**	**11,906**
Interest cost	524	518
Current service cost	593	575
Actuarial gains (+)/losses (-)	1,672	(53)
Total expense	**2,789**	**1,040**
Benefits paid	(1,023)	(869)
Currency translation adjustment	2	(2)
Reclassification to liabilities held-for-sale and disposal groups	(69)	0
Present value of obligation (DBO) as at 31/12	**13,774**	**12,075**
Number of eligible persons	3,174	3,167

The most important actuarial assumptions applied are as follows:

Actuarial assumptions	31/12/2012	31/12/2011
Discount rate in % p.a.	3.5	4.5
Estimated future salary increases in % p.a.	2.5 - 3.0	2.5 - 3.0

The calculations used to determine anniversary bonuses for Lenzing AG and its subsidiaries are based on the following mortality tables:

Biometric determination bases

Austria	Withdrawal rates determined in-house
Czech Republic	AVÖ 2008 (Pagler & Pagler)
Germany	Guidance tables 2005 G (Prof. Dr. Klaus Heubeck)

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Other provisions and accruals

Other provisions and accruals developed as follows:

Other provisions and accruals

2012	Balance as at 1/1	Currency translation adjustment	Reclassification to liabilities held-for-sale, disposal groups and other
Other provisions			
Guarantees and warranties	22,919	(22)	(7,314)
Anticipated losses and other risks	22,872	79	0
Emission certificates	3,828	19	0
Other	33,642	11	(8,099)
	83,262	**87**	**(15,413)**
Accruals			
Other personnel costs (non-financial)	46,766	(94)	(109)
Other (financial)	29,293	(83)	7,295
	76,059	**(177)**	**7,186**
Total	**159,321**	**(89)**	**(8,226)**

Other provisions and accruals

2011	Balance as at 1/1	Currency translation adjustment	Reclassification to discontinued operations
Other provisions			
Guarantees and warranties	9,590	42	0
Anticipated losses and other risks	18,819	357	0
Emission certificates	3,691	1	0
Other	39,908	595	0
	72,007	**995**	**0**
Accruals			
Other personnel costs (non-financial)	40,574	252	0
Other (financial)	52,506	359	0
	93,080	**611**	**0**
Total	**165,087**	**1,606**	**0**

EUR '000

Utilization	Reversal	Period Charge	Compounding of interest	Balance as at 31/12	thereof current	thereof non-current
(247)	(4,079)	1,036	0	12,294	1,494	10,800
(1,520)	(15,441)	1,389	539	7,918	3,371	4,546
(3,851)	0	2,761	0	2,757	2,757	0
(6,864)	(6,799)	9,322	0	21,212	3,912	17,300
(12,482)	**(26,319)**	**14,507**	**539**	**44,181**	**11,535**	**32,646**
(43,052)	(2,610)	36,807	0	37,709	37,709	0
(21,307)	(9,335)	20,935	0	26,798	26,798	0
(64,360)	**(11,944)**	**57,742**	**0**	**64,507**	**64,507**	**0**
(76,842)	(38,264)	72,249	539	108,688	76,041	32,646

EUR '000

Utilization	Reversal	Period Charge	Compounding of interest	Balance as at 31/12	thereof current	thereof non-current
(391)	(637)	14,316	0	22,919	9,619	13,300
(55)	(1,819)	4,302	1,267	22,872	16,437	6,435
(3,215)	0	3,351	0	3,828	3,828	0
(2,547)	(12,915)	8,601	0	33,642	33,642	0
(6,208)	**(15,370)**	**30,570**	**1,267**	**83,262**	**63,527**	**19,735**
(37,498)	(1,399)	44,838	0	46,766	46,766	0
(34,644)	(20,155)	31,228	0	29,293	29,293	0
(72,142)	**(21,554)**	**76,065**	**0**	**76,059**	**76,059**	**0**
(78,350)	(36,924)	106,636	1,267	159,321	139,586	19,735

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Provisions for guarantees and warranties mainly comprise provisions for warranty risks relating to the sale of defective products. Other provisions for anticipated losses and other risks primarily relate to obligations to render infrastructure services to third parties, and provisions for additional claims from procurement contracts. The other provisions for emission certificates encompass the equivalent value of the used emission certificates.

The other provisions mainly involve obligations for environmental restoration measures, obligatory maintenance expenses and legal conflicts. The provisions for environmental restoration measures are formed if future funds are likely to be required to fulfill environmental regulations or clean-up measures, the costs can be reliably estimated and these measures are not expected to result in any future economic benefit. The Lenzing site has been used for industrial purposes for decades, and thus entails the inherent risk of environmental damage. In 1990, Lenzing AG was informed that a presumably contaminated site exists which had been previously used as a clarification pond and could comprise an environmental burden. The company sealed off the area in order to prevent any contamination of the groundwater. The obligatory maintenance costs relate to expenses designed to safeguard assets for which there is a legal or constructive obligation. Provisions for legal risks are for the purpose of covering the costs of legal proceedings.

The accruals for personnel expenses primarily involve liabilities in connection to current claims of existing and former employees (in particular for unused holidays and compensatory time off from work, overtime and performance bonuses.

Other accruals primarily comprise anticipated decreases in earnings due to sales reductions or increased expenses from the company's business with customers and suppliers (especially discounts and rebates) as well as liabilities for services rendered by third parties but not yet invoiced trade receivables.

A cash outflow is considered to be probable over the next five months with regard to other current provisions and deferred liabilities. With respect to non-current aspects of other provisions, the cash outflow depends on different factors (in particular warranty periods and contract periods), leading to the conclusion that the cash outflow will take place no later than June 30, 2028.

Note 34

Puttable non-controlling interests

The puttable non-controlling interests developed as follows:

Development of puttable non-controlling interests EUR '000

	2012	2011
Carrying amount as at 1/1	**33,906**	**29,613**
Increase of capital due to contribution	0	1,463
Share of the profit for the year	(17,314)	163
Share in other comprehensive income	(3)	1
Currency translation differences	(215)	2,666
Carrying amount as at 31/12	**16,373**	**33,906**
Thereof recognized in:		
Other current assets	12,601	0
Non-current liaiblities	28,974	32,081
Current liabilities	0	1,824

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Note 35

Other liabilities

Other liabilities comprise the following:

Other liabilities EUR '000

	31/12/2012	31/12/2011
Other non-current financial liabilities		
Dividend guarantee for non-controlling interests	0	18,821
Derivative financial instruments (open positions)	738	0
Interest accruals	18	16
	756	**18,838**
Other non-current liabilities (non-financial)		
Early retirement	870	590
Deferred income	83	146
	953	**736**
Total other non-current liabilities	**1,709**	**19,574**
Other current financial liabilities		
Settled derivative financial instruments (closed positions)	1,417	514
Derivative financial instruments (open positions)	3,344	25,126
Credit balances on debtors	1,093	3,850
Sundry	6,979	9,004
	12,832	**38,494**
Other current liabilities (non-financial)		
Tax liabilities	6,058	6,903
Payroll	4,983	4,751
Social security and other statutory contributions	4,942	4,432
Early retirement	925	1,304
Advances from customers	10,886	13,510
Deferred income	1,233	825
	29,027	**31,725**
Total other current liabilities	**41,859**	**70,219**

Notes on the Consolidated Cash Flow Statement

Note 36

Liquid funds

The consolidated cash flow statement shows the change in liquid funds in the course of the reported year as a result of cash inflows and outflows. Liquid funds comprise of the following:

Liquid funds EUR '000

	31/12/2012	31/12/2011
Cash and cash equivalents	481,658	410,534
Current securities	0	6,748
Total	**481,658**	**417,282**

Note 37

Other disclosures on the consolidated cash flow statement

Other non-cash income and expenses consist of the following:

Other non-cash income and expenses EUR '000

	2012	2011
+ Depreciation of financial assets	15	19
- Write-ups of financial assets	(11)	(3)
- Gains/ + Losses on the disposal of intangible assets, property, plant and equipment	(196)	(955)
- Gains/ + Losses on the disposal of financial assets and current securities	(25)	289
+ Allocation of profit or loss to puttable non-controlling interests	(17,314)	163
- Other non-cash income/+ expenses	14,755	1,973
Total	**(2,776)**	**1,487**

The other non-cash income and expenses in the 2012 financial year mainly include impairment losses on the valuation of intangible assets and property, plant and equipment of the disposal group EPG to the amount of TEUR 17,208 (refer to Note 5).

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The following payments are contained in the consolidated cash flow statement:

Payments in the cash flow statement

EUR '000

	2012	2011
Interest received	6,485	5,199
Interest paid	23,149	22,641
Income taxes paid	78,672	41,835
Dividends received from associates	775	961
Dividends paid to shareholders	70,264	41,369

With the exception of the dividends distributed to shareholders, the above-mentioned payments are recognized in the operating cash flow. The dividends paid to shareholders are reported under the net cash used in/generated by financing activities.

With respect to the acquisition of non-controlling interests by the Lenzing Group, payments to the amount of TEUR 26,596 (2011: TEUR 320) were made to shareholders of non-controlling interests (also refer to Note 4).

The payments to puttable non-controlling interests amounting to TEUR 0 (2011: TEUR 1,463) relate to payments on the part of Lenzing (Nanjing) Fibers Co., Ltd. for their shares of the capital. The change in the ownership interests of Lenzing Modi Fibers India Pvt. Ltd. resulted in a cash inflow of TEUR 0 (2011: TEUR 589).

Notes on Capital Risk Management and Financial Instruments

Note 38

Capital risk management

Basic principles

The Lenzing Group manages its equity and debt with the clear goal of optimizing revenues, costs and assets of its individual operations, its business units and the Group as such for the purpose of a desired sustainable and high profitability and a solid balance sheet structure. Financial leveraging, sufficient liquidity at any time, and a clear focus on cash-based management ratios and control parameters play a major role against the backdrop of the strategic direction the company is taking and the long-term objectives of the Group.

This approach ensures that all Group companies can operate on a going concern basis. Furthermore, the authorized capital and the contingent capital allow Lenzing Group to flexibly raise further equity to make use of market opportunities arising in the future.

Lenzing AG is subject to the minimum equity requirements stipulated by Austrian corporate law. No minimum equity requirements have been laid out in Lenzing AG's Articles of Association. The aim of Lenzing Group's equity management strategy is that Lenzing AG and the Group entities have an equity base, which is in accordance with local requirements. In addition to that, some of the credit agreements with banks include covenants, which especially relate to the amount of equity in the entities of the Group. The equity ratio of the concerned entities and the resulting liquidity risk in the case of default (banks can partly demand repayment of the loans) is being continuously monitored by Global treasury.

All related capital requirements were basically fulfilled during the reporting period. In the case of one credit agreement for a subsidiary of the Lenzing Group, the management of the Group was informed before preparing the consolidated financial statements for the 2011 financial year that the related covenants had not been fulfilled. The subsequent negotiations were concluded in the 2012 financial year with the result that the credit agreement in question was refinanced.

For purposes of internal regulation, the management uses an adjusted equity ratio. The adjusted equity is determined according to IFRS and includes, in addition to equity, government grants less the related deferred tax. The adjusted equity ratio was 43.8% as at December 31, 2012 (December 31, 2011: 44.8%).

The dividend policy of Lenzing AG as the parent company of the Lenzing Group is oriented to the principles of continuity and longevity with the underlying aim to foster the future development of the company, to distribute a dividend to the shareholders commensurate with the opportunity and risk situation of the company and to adequately take account of the interests of all other stakeholders which are relevant for the company's success. The dividends are paid in relation to the net profit generated by the Lenzing Group.

Net financial debt

The Management Board and the Supervisory Board of Lenzing AG jointly and regularly monitor the development of the capital structure and the underlying control parameters, key indicators and influencing factors. Within the context of this review, various risk profiles and sensitivity analyses are prepared and considered for any investments in property, plant and equipment and intangible assets as well as for specific projects and acquisitions. Projects and investments are planned on the basis of projected future cash flows, applying different weighted discount rates (WACCs) dependent on the specific country risks and other micro risks. These processes are regularly monitored and adjusted, and coordinated with the Management Board. The development of competitors and market factors along with market parameters play an essential role.

Special attention is paid to the development of net financial debt in the light of the fact that the two key indicators of net financial debt and EBITDA have become essential control parameters for the management of the Group as well as for financing banks in recent years. Therefore, the ongoing optimal development of the Lenzing Group is only ensured by a very good equity financing strength as the basis for a higher capacity to incur debt.

Interest-bearing financial liabilities comprise the following:

Interest bearing financial liabilities — EUR '000

	31/12/2012	31/12/2011
Non-current financial liabilities	701,564	518,521
Current financial liabilities	173,568	134,360
Total	**875,132**	**652,881**

Liquid assets of the Lenzing Group comprise the following:

Liquid assets* — EUR '000

	31/12/2012	31/12/2011
Cash and cash equivalents	481,658	410,534
Current securities	0	6,748
Liquid investments (in the financial assets)	38,646	76,518
Liquid bill of exchanges (in the trade receivables)	8,531	5,764
Total	**528,835**	**499,564**

*) As of December 31, 2012 in addition to cash and cash equivalents and liquid investments, liquid assets now also encompasses liquid bills of exchange. For this reason the previous year's figure for liquid assets (December 31, 2011 before: EUR 493,800 thousand) was increased by TEUR 5,764 thousand and the net financial debt was adapted accordingly.

Net financial debt and EBITDA before restructuring are as follows:

Net financial debt

EUR '000

	31/12/2012	31/12/2011
Interest bearing financial debt	875,132	652,881
Liquid assets (-)	(528,835)	(499,564)
Total	**346,296**	**153,317**

EBITDA before result from restructuring

EUR '000

	2012	2011*
EBIT before result from restructuring	254,994	363,979
Depreciation (+)	107,253	120,591
Reversal of government grants (-)	(3,589)	(4,278)
Total	**358,658**	**480,292**
Net financial debt/EBITDA before result from restructuring	**0.97**	**0.32**

*) from continuing operations

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Note 39

Categories of financial instruments

The carrying amounts, fair values and the valuation of financial assets (financial instruments on the assets side) by classes and valuation categories comprise the following as at December 31, 2012 and December 31, 2011 respectively:

Carrying amounts, fair values and valuation categories by classes of financial asset EUR '000

	31/12/2012		Valuation according to IAS 39			
	Carrying amount	Fair Value	At amortized cost	At cost	At fair value through profit or loss	At fair value through other comprehensive income
Loans and receivables:						
Cash and cash equivalents (cf. Note 36)	481,658	481,658	✓			
Trade receivables (cf. Note 25)	264,516	264,516	✓			
Financial assets – long-term loans to third parties (cf. Note 22)	2,221	2,221	✓			
Puttable non-controlling interests (cf Note 27)	12,601	12,601				
Other long-term financial assets – long-term receivables (cf. Note 23)	1,731	1,731	✓			
Other short-term financial assets (without derivates – open positions and puttable non-controlling interests) (cf. Note 27)	14,920	14,920	✓			
Available-for-sale financial assets:						
Financial assets – non-current securities (cf Note 22)	53,828	53,828				✓
Currrent securities (cf Note 28)	0	0				✓
Other financial assets – share held in a non-consolidated company (cf Note 23)	1,150	1,150		✓		
Financial assets – other investments (cf Note 22)	19	19		✓		
Other:						
Other financial assets – derivative financial instruments at positive fair value (cash flow hedges) (cf Note 27)	5,330	5,330				✓
Other financial assets – derivative financial instruments at positive fair value (cash flow hedges, underlying already realized in profit or loss) (cf Note 27)	343	343			✓	
Other financial assets – derivative financial instruments at positive fair value (trading) (cf Note 27)	26	26			✓	
Total	**838,343**	**838,343**				

thereof:		
at amortized cost	765,045	765,045
at cost	1,169	1,169
at fair value through profit or loss	370	370
at fair value through other comprehensive income	59,158	59,158
not applicable	12,601	12,601
Total	**838,343**	**838,343**

Carrying amounts, fair values and valuation categories by classes of financial asset (prior year)

EUR '000

	31/12/2011		Valuation according to IAS 39			
	Carrying amount	Fair Value	At amortized cost	At cost	At fair value through profit or loss	At fair value through other comprehensive income
Loans and receivables:						
Cash and cash equivalents	410,534	410,534	✔			
Trade receivables	236,764	236,764	✔			
Financial assets – long-term loans to third parties (cf. Note 22)	2,682	2,682	✔			
Other long-term financial assets – long-term receivables (cf. Note 23)	7,928	7,928	✔			
Other short-term financial assets (without derivates – open positions and puttable non-controlling interests) (cf. Note 27)	21,955	21,955	✔			
Available-for-sale financial assets:						
Financial assets – non-current securities (cf Note 22)	90,945	90,945				✔
Currrent securities (cf Note 28)	6,748	6,748				✔
Other financial assets – share held in a non-consolidated company (cf Note 23)	1,150	1,150		✔		
Financial assets - other investments (cf Note 22)	3	3		✔		
Other:						
Other financial assets – derivative financial instruments at positive fair value (cash flow hedges	0	0				✔
Other financial assets – derivative financial instruments at positive fair value (cash flow hedges, underlying already realized in profit or loss)	0	0			✔	
Other financial assets – derivative financial instruments at positive fair value (trading)	16	16			✔	
Total	**778,724**	**778,724**				

thereof:		
at amortized cost	679,862	679,862
at cost	1,153	1,153
at fair value through profit or loss	16	16
at fair value through other comprehensive income	97,693	97,693
Total	**778,724**	**778,724**

The market values of cash and cash equivalents and securities are equivalent to their carrying amounts. The carrying amount of loans receivable approximately corresponds to the market value, because they have been concluded at variable interest rates for the most part.

The market value of receivables and other assets also approximately corresponds to their carrying amounts, as these mainly are of a short-term nature and credit risk is covered by the allowance for bad debt (bad debt provisions).

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The carrying amounts, fair values and the valuation of financial liabilities (financial instruments on the liability side) by classes and valuation categories are comprised of the following as at December 31, 2012 and December 31, 2010 respectively:

Carrying amounts, fair values and valuation categories by classes of financial liability

EUR '000

	31/12/2012		Valuation according to IAS 39				
	Carrying amount	Fair Value	At amortized cost	At cost	At fair value through profit or loss	At fair value through other comprehensive income	Measurement according to IAS 17
Financial liabilities at amortized cost							
Bond (cf Note 31)	119,504	128,400	✔				
Private placement (cf Note 31)	199,202	200,314	✔				
Bank loans (cf Note 31)	518,940	522,554	✔				
Other loans (cf Note 31)	35,654	35,610	✔				
Trade payables	200,259	200,259	✔				
Puttable non-controlling interests (cf Note 34)	28,974	28,974					
Other long-term financial liabilities (cf Note 35)	18	18	✔				
Other short-term financial liabilities (without derivates – open positions) (cf. Note 35)	9,488	9,488	✔				
Accruals – other (financial) (cf Note 33)	26,798	26,798	✔				
Other							
Lease payables (cf Note 31)	1,831	1,831					✔
Other financial liabilities – derivative financial instruments at negative fair value (cash flow hedges) (cf Note 35)	2,042	2,042				✔	
Other financial liabilities – derivative financial instruments at negative fair value (cash flow hedges, underlying already realized in profit or loss) (cf Note 35)	1,808	1,808			✔		
Other financial liabilities – derivative financial instruments at negative fair value (trading) (cf Note 35)	233	233			✔		
Total	**1,144,751**	**1,158,329**					

thereof:		
at amortized cost	1,109,864	1,123,441
at fair value through profit or loss	2,041	2,041
at fair value through other comprehensive income	2,042	2,042
measurement according to IAS 17	1,831	1,831
not applicable	28,974	28,974
Total	**1,144,751**	**1,158,329**

Carrying amounts, fair values and valuation categories by financial liability classes (prior year)

EUR '000

	31/12/2011		Valuation according to IAS 39				
	Carrying amount	Fair Value	At amortized cost	At cost	At fair value through profit or loss	At fair value through other comprehensive income	Measurement according to IAS 17
Financial liabilities at amortized cost							
Bond (cf Note 31)	119,400	123,360	✔				
Bank loans (cf Note 31)	491,689	493,891	✔				
Other loans (cf Note 31)	40,010	39,373	✔				
Trade payables	148,553	148,553	✔				
Puttable non-controlling interests (cf Note 34)	33,906	33,906					
Other long-term financial liabilities (cf Note 35)	18,838	18,838	✔				
Other short-term financial liabilities (without derivates – open positions) (cf. Note 35)	13,368	13,368	✔				
Accruals – other (financial) (cf Note 33)*	29,293	29,293	✔				
Other							
Lease payables	1,781	1,781					✔
Other financial liabilities – derivative financial instruments at negative fair value (cash flow hedges) (cf Note 35)	21,169	21,169				✔	
Other financial liabilities – derivative financial instruments at negative fair value (cash flow hedges, underlying already realized in profit or loss) (cf Note 35)	2,515	2,515			✔		
Other financial liabilities – derivative financial instruments at negative fair value (trading) (cf Note 35)	1,442	1,442			✔		
Total	**921,964**	**927,489**					

thereof:		
at amortized cost	861,152	866,676
at fair value through profit or loss	3,956	3,956
at fair value through other comprehensive income	21,169	21,169
measurement according to IAS 17	1,781	1,781
not applicable	33,906	33,906
Total	**921,964**	**927,489**

The market value of the bond was reported as the stock market price at the end of the year. The market value of bank loans and other loans as well as the Private placement was determined by discounting the future cash flows relating to these liabilities with the market interest rate at the reporting date. The market value of other financial liabilities corresponds to their carrying amount due to their predominantly short-term nature.

*) Other accruals (financial) according to note 33 has been included in this presentation (refer to note 3 "presentation").

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The following table presents an analysis of financial instruments measured at fair value according to the technique of valuation which was used. In this regard, three levels of measurement methods have been defined.

Level 1: Price quotation for identical assets or liabilities in active markets (unadjusted): in the Lenzing Group this applies to securities (valuation at the stock market prices and other market prices, in particular the net asset values of investment funds).

Level 2: Inputs which are directly (e.g. prices) or indirectly (e.g. derived from prices) observable for the assets or liabilities and which are not included within level 1. In the Lenzing Group this applies to foreign currency forward contracts and gas swaps (valuation using valuation techniques customary in the market and based on the market data available on the valuation date).

Level 3: Inputs for assets or liabilities, which are not based on observable market data: no such financial instruments exist in the Lenzing Group at present.

Inputs for financial instruments EUR '000

As at 31/12/2012	Level 1	Level 2	Level 3	Total
Securities, investments	53,828	0	0	53,828
Derivative financial instruments at positive fair value	0	5,699	0	5,699
Cash flow hedges	0	5,330	0	5,330
Cash flow hedges, underlying already realized in profit or loss	0	343	0	343
Trading	0	26	0	26
Derivative financial instruments at negative fair value	0	(4,082)	0	(4,082)
Cash flow hedges	0	(2,042)	0	(2,042)
Cash flow hedges, underlying already realized in profit or loss	0	(1,808)	0	(1,808)
Trading	0	(233)	0	(233)

Inputs for financial instruments (prior year) EUR '000

As at 31/12/2011	Level 1	Level 2	Level 3	Total
Securities, investments	97,676	0	0	97,676
Derivative financial instruments at positive fair value	0	16	0	16
Cash flow hedges	0	0	0	0
Cash flow hedges, underlying already realized in profit or loss	0	0	0	0
Trading	0	16	0	16
Derivative financial instruments at negative fair value	0	25,126	0	25,126
Cash flow hedges	0	21,169	0	21,169
Cash flow hedges, underlying already realized in profit or loss	0	2,515	0	2,515
Trading	0	1,442	0	1,442

As at December 31, 2011, there were no shifts in financial instruments having been in the Group's portfolio on the previous balance sheet date among the different levels of the fair value hierarchy.

As at December 31, 2012, derivatives (gas swaps) featuring a market value of TEUR 124 and TEUR -1,262 (December 31, 2011: TEUR -2,214) were reclassified from Level 1 to Level 2 because there was no listed prices for this derivatives on an active market. The valuations will be maintained, and the previous year's figures in the chart above were correspondingly adjusted.

Note 40

Interest/net result from financial instruments

The interest result and net result from financial instruments according to classes or valuation categories in line with the stipulations contained in IAS 39 includes net gains or losses, total interest income and total interest expenses as well as expenses relating to impairment losses on financial instruments, and comprise the following:

Interest and net result of financial instruments EUR '000

2012	Interest income	Interest expense	Interest result	Result from subsequent measurement at fair value through profit or loss	Result from subsequent measurement at fair value through other comprehensive income	Result from subsequent measurement (impairment)	Result on disposal	Net result (total)
Loans and receivables	4,798	0	4,798	0	0	(874)	0	3,924
Available-for-sale financial assets	633	0	633	0	323	0	(68)	888
Financial assets at fair value through profit or loss	0	0	0	1,220	0	0	0	1,220
Financial liabilities at amortized cost	0	(24,840)	(24,840)	0	0	0	0	(24,840)
Total	**5,431**	**(24,840)**	**(19,410)**	**1,220**	**323**	**(874)**	**(68)**	**(18,809)**

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Interest and net result of financial instruments (prior year) EUR '000

2011	Interest income	Interest expense	Interest result	Result from subsequent measurement at fair value through profit or loss	Result from subsequent measurement at fair value through other comprehensive income	Result from subsequent measurement (impairment)	Result on disposal	Net result (total)
Loans and receivables	4,231	(19)	4,212	0	0	(2,708)	0	1,504
Available-for-sale financial assets	1,679	0	1,679	0	930	0	(632)	1,977
Financial assets at fair value through profit or loss	0	0	0	(1,426)	0	0	0	(1,426)
Financial liabilities at amortized cost	0	(23,471)	(23,471)	0	0	0	0	(23,471)
Total	**5,910**	**(23,489)**	**(17,580)**	**(1,426)**	**930**	**(2,708)**	**(632)**	**(21,416)**

The changes in bad debt provisions on "Loans and receivables recognized at amortized cost" are presented under "Other operating expenses." The subsequent measurement at fair value of available-for-sale financial assets recognized directly in equity is presented in the "Reserve for available-for-sale financial assets." The other components of the net result from financial instruments are recognized as "Other investment income" or as "Financing costs".

In the financial year under review, expenses amounting to TEUR 1,585 (2011: TEUR 1,784) were recognized for the provision of loans.

Net foreign exchange losses/gains are included in the other operating expenses/income in the amount of TEUR -12,144 (2011: TEUR +7,410) in other investment income in the amount of TEUR -655 (2011: TEUR + 216) in financing costs in the amount of TEUR 1,532 (2011: TEUR -425)

Note 41

Financial risk management and derivative financial instruments

Basic principles

As a company operating on an international basis, the Lenzing Group is exposed to various financial risks and other market risks. A Group-wide risk management system comprehensively governed by guidelines ensures that potential risks are identified at an early stage and assessed. The highest possible risk transparency and quality of information should be ensured by quantifying all risk categories. The efficiency of the Group-wide risk management system is continuously evaluated and monitored by the internal control system (ICS) and the internal audit department.

Financial risks from financial instruments i.e. credit risk, liquidity risk, foreign currency risk – particularly in USD), raw material price risk and interest rate risk have been identified as the areas of risk for the Lenzing Group. Appropriate hedging arrangements are used as means of striving to minimize those risks.

Credit risk

Credit risk describes the risk of incurring losses on assets resulting from the failure of individual business partners to fulfill their contractual obligations. The risk of non-payment in supply transactions inherent in the Group's operations is largely covered by credit insurance and bank col-laterals (guarantees, letters of credit).

The development of the allowance for bad debts was as follows:

Development of bad debt provisions EUR '000

	Loans (non-current and current)	Trade receivables	Other receiv-ables (non-current and current)
Bad debt provisions as at 31/12/2011	**2,041**	**5,893**	**553**
Acquisition of subsidiaries	0	0	0
Utilization	0	(542)	0
Reversal	0	(103)	0
Addition	19	2,813	0
Currency translation adjustment	51	(111)	0
Bad debt provisions as at 31/12/2011	**2,111**	**7,950**	**553**
Acquisition of subsidiaries	0	0	0
Utilization	0	(416)	0
Reversal	0	(890)	0
Addition	23	1,120	621
Currency translation adjustment	141	93	0
Bad debt provisions as at 31/12/2012	**2,275**	**7,857**	**1,174**

Bad debt provisions on trade receivables contain bad debt allowances for recivables from as-sociates to the amount of TEUR 2,366 (2011: TEUR 1,566).

Bad debt provisions recognized for trade receivables mainly relate to losses for overdue re-ceivables which are not covered by credit insurance.

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The age structure of receivables is as follows:

Maturity analysis of receivables

EUR '000

	Loans (non-current and current)	Trade receivables	Other receivables (non-current and current)
Carrying amount as at 31/12/2012	2,221	264,516	36,101
Thereof not impaired at the reporting date and:			
not overdue	2,071	230,808	36,101
overdue up to 30 days	0	24,272	0
overdue for 31 to 90 days	0	1,960	0
overdue for 91 to 365 days	0	1,128	0
overdue for more than one year	0	234	0
Thereof impaired	150	6,112	0

Maturity analysis of receivables (prior year)

EUR '000

	Loans (non-current and current)	Trade receivables	Other receivables (non-current and current)
Carrying amount as at 31/12/2011	2,682	236,764	31,033
Thereof not impaired at the reporting date and:			
not overdue	2,493	203,516	31,033
overdue up to 30 days	0	23,501	0
overdue for 31 to 90 days	0	1,980	0
overdue for 91 to 365 days	0	510	0
overdue for more than one year	0	164	0
Thereof impaired	188	7,093	0

The maximum cedit risk for recognized financial assets can be depicted as follows:

Maximum risk of default from financial assets

EUR '000

	31/12/2012	31/12/2011
Carrying amount of financial instruments on the assets-side (cf note 39)	838,343	778,724
Less risk deduction from receivables through	0	0
received credit insurances (without deductibles)	(81,824)	(69,766)
received guarantees	(4,895)	(2,640)
Total	**751,624**	**747,226**

The maximum quantifiable credit risk from financial guarantee contracts and contingent liabilities is shown in Note 46.

There are no doubts regarding the collectability of financial assets that are not impaired and not overdue.

Receivables are measured individually. If a receivable is entirely uncollectible, this receivable is impaired at 100% (on the basis of the net amount). For all other receivables, an allowance for bad debt is recognized, provided that they are assumed not be fully collectible.

In addition, the Group has assumed liability for other companies amounting to TEUR 583 (December 31, 2011: TEUR 1,167), of which TEUR 583 (December 31, 2011: TEUR 1,167) relate to associates. The Group will be required to assume responsibility for these liabilities if these companies fail to fulfill their contractual commitments. The risk of the Group actually being called upon to meet these obligations is considered to be low.

No significant concentration of risk exists relating to investments in financial assets with only one business partner.

Liquidity risk

Liquidity risk is defined as the risk of not being able to obtain financial resources at any time in order to meet liabilities which were 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 budget-relevant one-year and medium-term four-year liquidity plan.

The Lenzing Group has a strategic liquidity reserve consisting of cash, cash equivalents, marketable securities and liquid bills of exchange amounting to TEUR 528,835 (adjusted figure for December 31, 2011: TEUR 499,564). As of December 31, 2012, the liquid assets not only consists of cash and cash equivalents and marketable securities but also encompasses liquid bills of exchange. For this reason, the previous year's figure for the strategic liquidity reserve (December 31, 2011: TEUR 493,800) was correspondingly increased by TEUR 5,764.

As at December 31, 2012, the Lenzing Group had unused lines of credit at its disposal to the amount of TEUR 211,179 (December 31, 2011: TEUR 250,757) for the purpose of financing working capital as well as for covering potential cyclical financial shortfalls.

The contractually stipulated undiscounted interest and principal payments on primary financial liabilities consist of the following:

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Maturity analysis of non-derivative financial liabilities

	Valuation category according to IAS 39	31/12/2012
		Carrying amount
Bond	Financial Liabilities at Amortized Cost (FLAC)	119,504
German private placement	Financial Liabilities at Amortized Cost (FLAC)	199,202
Bank loans	Financial Liabilities at Amortized Cost (FLAC)	518,940
Other loans	Financial Liabilities at Amortized Cost (FLAC)	35,654
Trade payables	Financial Liabilities at Amortized Cost (FLAC)	200,259
Puttable non-controlling interests	Financial Liabilities at Amortized Cost (FLAC)	28,974
Other liabilities – other financial liabilities	Financial Liabilities at Amortized Cost (FLAC)	9,506
Accruals – other (financial)	Financial Liabilities at Amortized Cost (FLAC)	26,798
Lease payables	n/a (IAS 17)	1,831
Non-derivative financial instruments		**1,140,669**

Maturity analysis of non-derivative financial liabilities (prior year)

	Valuation category according to IAS 39	31/12/2011
		Carrying amount
Bond	Financial Liabilities at Amortized Cost (FLAC)	119,400
Bank loans	Financial Liabilities at Amortized Cost (FLAC)	491,689
Other loans	Financial Liabilities at Amortized Cost (FLAC)	40,010
Trade payables	Financial Liabilities at Amortized Cost (FLAC)	148,553
Puttable non-controlling interests	Financial Liabilities at Amortized Cost (FLAC)	33,906
Other liabilities – other financial liabilities	Financial Liabilities at Amortized Cost (FLAC)	32,206
Accruals – other (financial)	Financial Liabilities at Amortized Cost (FLAC)	29,293
Lease payables	n/a (IAS 17)	1,781
Non-derivative financial instruments		**896,838**

*) Other accruals (financial) according to note 33 has been included in this presentation. (refer to note 3 “presentation”)

EUR '000

Cash flows 2013				Cash flows 2014 to 2017				Cash flows from 2018			
Fixed interest	Fixed and variable interest	Variable interest	Repay-ment	Fixed interest	Fixed and variable interest	Variable interest	Repay-ment	Fixed interest	Fixed and variable interest	Variable interest	Repay-ment
4,650	0	0	0	18,600	0	0	120,000	0	0	0	0
3,444	0	1,709	0	12,893	0	5,725	103,000	9,485	0	1,184	97,000
2,209	0	11,527	164,796	2,250	0	17,076	310,743	0	0	1,003	46,171
51	422	70	9,320	95	501	79	25,500	0	6	0	834
0	0	0	200,259	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	28,974
0	0	0	9,488	0	0	0	18	0	0	0	0
0	0	0	26,798	0	0	0	0	0	0	0	0
1	0	0	21	10	0	0	69	4,772	0	0	1,741
10,355	**422**	**13,306**	**410,682**	**33,848**	**501**	**22,880**	**559,329**	**14,257**	**6**	**2,187**	**174,720**

EUR '000

Cash flows 2012				Cash flows 2013 to 2016				Cash flows from 2017			
Fixed interest	Fixed and variable interest	Variable interest	Repay-ment	Fixed interest	Fixed and variable interest	Variable interest	Repay-ment	Fixed interest	Fixed and variable interest	Variable interest	Repay-ment
4,650	0	0	0	18,600	0	0	0	4,650	0	0	120,000
3,126	0	11,461	122,570	4,073	0	18,286	318,384	2	0	2,506	50,735
40	472	79	11,790	65	759	94	28,123	0	0	0	97
0	0	0	148,504	0	0	0	50	0	0	0	0
0	0	0	1,824	0	0	0	0	0	0	0	32,081
0	0	0	13,368	0	0	0	12,517	0	0	0	12,500
0	0	0	29,293	0	0	0	0	0	0	0	0
72	0	0	(50)	306	0	0	(225)	4,477	0	0	2,056
7,888	**472**	**11,540**	**327,299**	**23,044**	**759**	**18,380**	**358,848**	**9,129**	**0**	**2,506**	**217,469**

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The contractually stipulated undiscounted interest and principal payments on derivative financial liabilities are comprised of the following:

Maturity analysis of derivative financial instruments

	Valuation category according to IAS 39	31/12/2012
		Carrying amount
Foreign currency forward contracts		
Cash flow hedges	n/a	5,206
Cash flow hedges, underlying already realized in income statement	n/a	343
Trading	At Fair Value through Profit or Loss (Trading)	26
Positive fair value		**5,575**
Cash flow hedges	n/a	(780)
Cash flow hedges, underlying already realized in income statement	n/a	(1,808)
Trading	At Fair Value through Profit or Loss (Trading)	(233)
Negative fair value		**(2,821)**
Total foreign currency forward contract		**2,754**
Natural gas swaps		
Cash flow hedges	n/a	124
Cash flow hedges, underlying already realized in income statement	n/a	0
Trading	At Fair Value through Profit or Loss (Trading)	0
Positive fair value		**124**
Cash flow hedges	n/a	(1,262)
Cash flow hedges, underlying already realized in income statement	n/a	0
Trading	At Fair Value through Profit or Loss (Trading)	0
Negative fair value		**(1,262)**
Total gas swaps		**(1,137)**
Total		**1,617**

Market value: + = receivable, - = liability from the Lenzing Group's perspective

EUR '000

	Cash flows 2013				Cash flows 2014 to 2017				Cash flows from 2018			
	Fixed interest	Fixed and variable interest	Variable interest	Repay-ment	Fixed interest	Fixed and variable interest	Variable interest	Repay-ment	Fixed interest	Fixed and variable interest	Variable interest	Repay-ment
	0	0	0	5,089	0	0	0	116	0	0	0	0
	0	0	0	343	0	0	0	0	0	0	0	0
	0	0	0	26	0	0	0	0	0	0	0	0
	0	**0**	**0**	**5,459**	**0**	**0**	**0**	**116**	**0**	**0**	**0**	**0**
	0	0	0	(678)	0	0	0	(103)	0	0	0	0
	0	0	0	(1,808)	0	0	0	0	0	0	0	0
	0	0	0	(233)	0	0	0	0	0	0	0	0
	0	**0**	**0**	**(2,718)**	**0**	**0**	**0**	**(103)**	**0**	**0**	**0**	**0**
	0	0	0	2,741	0	0	0	14	0	0	0	0
	0	0	0	79	0	0	0	45	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0
	0	**0**	**0**	**79**	**0**	**0**	**0**	**45**	**0**	**0**	**0**	**0**
	0	0	0	(626)	0	0	0	(636)	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0
	0	**0**	**0**	**(626)**	**0**	**0**	**0**	**(636)**	**0**	**0**	**0**	**0**
	0	0	0	(547)	0	0	0	(590)	0	0	0	0
	0	0	0	2,194	0	0	0	(577)	0	0	0	0

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Maturity analysis of derivative financial instruments (prior year)

	Valuation category according to IAS 39	31/12/2011 Carrying amount
Foreign currency forward contracts		
Cash flow hedges	n/a	0
Cash flow hedges, underlying already realized in income statement	n/a	0
Trading	At Fair Value through Profit or Loss (Trading)	16
Positive fair value		**16**
Cash flow hedges	n/a	(18,955)
Cash flow hedges, underlying already realized in income statement	n/a	(2,515)
Trading	At Fair Value through Profit or Loss (Trading)	(1,442)
Negative fair value		**(22,912)**
Total foreign currency forward contract		**(22,896)**
Natural gas swaps		
Cash flow hedges	n/a	0
Cash flow hedges, underlying already realized in income statement	n/a	0
Trading	At Fair Value through Profit or Loss (Trading)	0
Positive fair value		**0**
Cash flow hedges	n/a	(2,214)
Cash flow hedges, underlying already realized in income statement	n/a	0
Trading	At Fair Value through Profit or Loss (Trading)	0
Negative fair value		**(2,214)**
Total gas swaps		**(2,214)**
Total		**(25,110)**

Market value: + = receivable, - = liability from the Lenzing Group's perspective

EUR '000

Cash flows 2012				Cash flows 2013 to 2016				Cash flows from 2017			
Fixed interest	Fixed and variable interest	Variable interest	Repay-ment	Fixed interest	Fixed and variable interest	Variable interest	Repay-ment	Fixed interest	Fixed and variable interest	Variable interest	Repay-ment
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	16	0	0	0	0	0	0	0	0
0	**0**	**0**	**16**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	(18,228)	0	0	0	(728)	0	0	0	0
0	0	0	(2,515)	0	0	0	0	0	0	0	0
0	0	0	(1,442)	0	0	0	0	0	0	0	0
0	**0**	**0**	**(22,184)**	**0**	**0**	**0**	**(728)**	**0**	**0**	**0**	**0**
0	0	0	(22,168)	0	0	0	(728)	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	(1,230)	0	0	0	(984)	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
0	**0**	**0**	**(1,230)**	**0**	**0**	**0**	**(984)**	**0**	**0**	**0**	**0**
0	**0**	**0**	**(1,230)**	**0**	**0**	**0**	**(984)**	**0**	**0**	**0**	**0**
0	0	0	(23,398)	0	0	0	(1,712)	0	0	0	0

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Exchange rate risk

The Lenzing Group is subject to exchange rate risks as a result of cash flows relating to investments and the company's business operations. Foreign exchange risks are hedged to the greatest possible extent if these risks affect the Group's cash flows. The operating activities expose the individual Group subsidiaries to foreign exchange risks relating to planned payment inflows and outflows not denominated in the functional currency. The exchange rate risk arising from foreign currency positions relating to expected future transactions not denominated in an entity's functional currency is hedged with foreign currency forward contracts and options which are recognized at market value.

For companies with the same functional currency, the respective net exposures in foreign currency are determined for the following accounting year within the course of the budgeting process. Purchases and sales in a specified foreign currency are pooled in one group. Approximately 67% of the budgeted net exposure of the currency pair EUR/USD - which dominates Lenzing Group transactions – was hedged as at December 31, 2012 (December 31, 2011: approx. 69%).

On a Group level, the currency translation risk is regularly evaluated and monitored. Currency translation risk refers to the risk resulting from the consolidation of foreign companies in the Group in which the euro is not the functional currency. Transactions in USD comprise the largest currency translation risk position of the Lenzing Group.

Instruments designed to hedge the foreign exchange risk

Cash flow hedge derivatives are designated for sales denominated in the hedged currency and relating to the operating business of the following financial year. The resulting cash flows are planned on a monthly basis, and the total of cash inflows and cash outflows of a month are settled at the close of each month. The cash flow hedge derivatives whose underlying transactions have already been recognized in profit or loss, serve to hedge foreign currency receivables and liabilities which are already recognized in the consolidated statement of financial position but are encompassed in the cash flows after the reporting date. In part, Group subsidiaries make use of derivatives to hedge foreign exchange risks which are not assigned to any underlying transactions in the consolidated statement of financial position (trading derivatives). For this reason hedge accounting is not applied with these derivatives.

The ineffective share of the cash flow hedge derivatives amounted to TEUR 77 in the 2012 financial year (2011: TEUR 0).

Cash flow hedge derivatives for foreign currency risks

The nominal and market values of the cash flow hedge derivatives at the reporting dates were as follows:

Nominal amount, market value and hedging period of cash flow hedge derivatives for currency risks EUR '000

	31/12/2012				30/12/2011			
		Nominal amount	Market value	Hedging period until		Nominal amount	Market value	Hedging period until
Forward contracts								
CNH purchase/EUR sale	CNH	336,000	(172)	05/2014	CNH	0	0	n/a
CZK purchase/EUR sale	CZK	200,000	(24)	12/2013	CZK	200,000	(187)	12/2012
EUR sale/CZK purchase	EUR	0	0	n/a	EUR	17,200	(873)	01/2013
EUR sale/GBP purchase	EUR	0	0	n/a	EUR	6,000	273	01/2013
USD sale/CZK purchase	USD	74,300	978	01/2014	USD	52,200	(4,086)	01/2013
USD sale/EUR purchase	USD	229,492	3,541	01/2014	USD	276,246	(13,510)	01/2013
USD sale/GBP purchase	USD	35,200	104	05/2014	USD	31,800	(573)	12/2012
Total			**4,425**				**(18,955)**	

Cash flow hedge derivatives for foreign currency risks whose underlying transactions were already recognized in income statement

Nominal and market values of cash flow hedge derivatives whose underlying transactions were already recognized in income statement were as follows at the reporting dates:

Nominal amount and market value of cash flow hedge derivatives for currency risks, whose underlying transactions were already recognized in income statement EUR '000

	31/12/2012			31/12/2011		
		Nominal amount	Market value		Nominal amount	Market value
Forward contracts						
EUR purchase/GBP sale	EUR	1,000	72	EUR	0	0
USD purchase/EUR sale	USD	0	0	USD	226	13
CNY sale/EUR purchase	CNY	0	0	CNY	36,000	(41)
EUR sale/CZK purchase	EUR	400	(6)	EUR	7,300	(373)
USD sale/CZK purchase	USD	5,800	(149)	USD	3,700	(329)
USD sale/EUR purchase	USD	95,579	(1,442)	USD	44,112	(1,717)
USD sale/GBP purchase	USD	6,000	61	USD	3,600	(68)
Total			**(1,465)**			**(2,515)**

Market value: + = receivable, - = liability from the Lenzing Group's perspective (each presented as net position)

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Trading derivatives for foreign currency risks

The nominal and market values of trading derivatives at the reporting dates were as follows:

Nominal amount and market value from trading derivatives EUR '000

	31/12/2012			31/12/2011		
		Nominal amount	Market value		Nominal amount	Market value
Forward contracts						
CHF purchase/USD sale	CHF	67	1	CHF	610	(26)
EUR purchase/CNY sale	EUR	0	0	EUR	376	16
EUR purchase/USD sale	EUR	1,009	25	EUR	10,760	(801)
IDR purchase/USD sale	IDR	194,904,500	(232)	IDR	385,847,350	(618)
GBP purchase/USD sale	GBP	42	(0)	GBP	0	0
JPY purchase/USD sale	JPY	0	0	JPY	6,700	0
SGD purchase/USD sale	SGD	0	0	SGD	1,795	3
Total			**(206)**			**(1,426)**

Sensitivity analysis and exposure to foreign exchange risks

Sensitivity analyses are carried out with respect to foreign exchange risks. They assess effects arising from hypothetical changes in exchange rates on income statement, other comprehensive income and equity.

The analysis implemented by the Lenzing Group is based on the following assumptions:

- The basis for determining the sensitivity of income statement are the receivables and liabilities of Group subsidiaries which are denominated in a currency different from the functional currency of the respective Group subsidiary, the open derivatives from cash flow hedges for foreign currency risks whose underlying transactions were already recognized in profit or loss as well as trading derivatives for foreign currency risks as at the reporting date. The carrying amounts of the receivables and liabilities and the nominal values of the derivatives correspond to the exposure. In order to define the total Group exposure, the individual exposures are uniformly presented in relation to the currencies USD and EUR.

- The basis for the sensitivity of other comprehensive income is open derivatives from cash flow hedges for foreign currency risks, in which the underlying transactions were not yet recognized in income statement at the reporting date. The nominal values of the open derivatives correspond to the exposure.

Market value: + = receivable, - = liability from the Lenzing Group's perspective (each presented as net position)

The sensitivities and exposure relating to the foreign currency risk at the reporting dates were as follows:

Sensitivity analysis and risk position for foreign currency risks (EUR)

EUR '000

	31/12/2012			31/12/2011		
	Group-exposure related to EUR	Sensitivity of devaluation of the EUR up to 10 %	Sensitivity of revaluation of the EUR up to 10%	Group-exposure related to EUR	Sensitivity of devaluation of the EUR up to 10 %	Sensitivity of revaluation of the EUR up to 10%
EUR-USD	61,197	5,588	(6,770)	57,940	5,152	(6,578)
EUR-GBP	(13,474)	(1,171)	1,563	7,954	800	(790)
EUR-CNY	4,691	466	(473)	2,383	223	(257)
EUR-CZK	73,216	7,329	(7,312)	36,023	3,575	(3,636)
Sensitivity of the income or loss (through receivables and payables)		12,212	(12,992)		9,750	(11,261)
Sensitivity of the other comprehensive income (through cash flow hedge derivatives)		(22,522)	19,054		(20,670)	16,491
Sensitivity of the equity		**(10,311)**	**6,062**		**(10,920)**	**5,229**

Sensitivity analysis and risk position for foreign currency risks (USD)

EUR '000

	31/12/2012			31/12/2011		
	Group-exposure related to USD	Sensitivity of devaluation of the USD up to 10 %	Sensitivity of revaluation of the USD up to 10 %	Group-exposure related to USD	Sensitivity of devaluation of the USD up to 10 %	Sensitivity of revaluation of the USD up to 10 %
USD-IDR	16,158	1,469	(1,795)	34,328	3,121	(3,814)
USD-GBP	(10,074)	(1,008)	1,007	(8,296)	(830)	829
USD-HKD	(4,562)	(456)	456	(4,605)	(461)	461
USD-CNY	88,506	8,851	(8,851)	86,717	8,672	(8,672)
USD-CZK	(5,518)	(552)	552	(1,205)	(121)	121
Sensitivity of the income or loss (through receivables and payables)		8,304	(8,631)		10,382	(11,076)
Sensitivity of the other comprehensive income (through cash flow hedge derivatives)		11,982	(11,442)		6,786	(6,284)
Sensitivity of the equity		**20,285**	**(20,073)**		**17,167**	**(17,360)**

group exposure: + receivable, - liability; sensitivity: + increase of result/other comprehensive income, - decrease of result/other comprehensive income

Commodity price risk

Within the context of efforts being made to optimize energy costs, natural gas procurement has been largely centralized in the Lenzing Group. In order to manage the gas price risk, the Group makes use of OTC gas swaps as part of its cash flow hedging relationships. The hedging strategies are determined on the basis of planned gas consumption volumes in the respective currency, and compared with current market prices by a market to market valuation implemented on a monthly basis. Due to these gas swaps, the Lenzing Group is subject to price risks. The major risk in this context is that the valuation of gas swaps at fair value can have a negative impact on other comprehensive income and equity in the case of an adverse change in market prices.

Embedded derivatives are contained especially in long-term gas supply contracts. These embedded derivatives are closely linked to the underlying contracts. For this reason, these financial instruments are not separated from the respective underlying contracts.

Otherwise the Group and its business operations are subject to market price risks typical for the industry (especially with respect to wood, pulp and energy), which are not hedged using derivatives but using other hedging measures (in particular long-term and short-term procurement agreements).

Instruments to hedge commodity price risks – cash flow hedges

The nominal and market values of cash flow hedge derivatives at the reporting dates were as follows:

Nominal contract value, market value and hedging period from derivatives for hedging commodity price risk EUR '000

	31/12/2012				31/12/2011			
		Nominal contract value*	Market value	Hedging period until		Nominal contract value*	Market value	Hedging period until
Natural gas swaps								
	USD	7,380	(657)	12/2015	USD	6,015	(984)	12/2014
	GBP	9,926	(481)	10/2015	GBP	11,778	(1,230)	12/2014
Total		**17,306**	**(1,137)**			**17,793**	**(2,214)**	

Sensitivity analysis and exposure for commodity price risks

Sensitivity analyses are carried out for price fluctuation risks relating to natural gas swaps. They assess effects arising from hypothetical changes in gas prices on income statement, other comprehensive income and equity.

The analysis implemented by the Lenzing Group is based on the following assumptions:

- The open derivatives from cash flow hedges on the reporting date are the basis for the sensitivity analysis.
- The exposure corresponds to the nominal value of the derivatives (excluding the underlying transactions). From an economic point of view, the derivatives are used to hedge underlying physical transactions which are recognized in profit or loss in subsequent periods, so that from an economic perspective no risk position exists in combination with the underlying transactions.

If the market prices for natural gas increased (decreased) by 10% as at December 31, 2012, this would result in a change of other comprehensive income and equity by +/- TEUR 1,666 TEUR (December 31, 2011: +/- TEUR 1,572).

Interest rate risks

Due to business-related financing and investment activities, the Lenzing Group is subject to interest rate risks. These interest rate risks arise because of potential changes in the market interest rate, and could lead to a change in the fair value in the case of fixed interest financial instruments, and to cash flow fluctuations relating to interest payments in the case of variable-interest financial instruments. Interest rate risk management is carried out by the ongoing monitoring and adjustment of the composition of fixed and variable-interest primary financial

*) comes up to the exposure Market value: + = receivable, - = liability from the Lenzing Group's perspective (each presented as net position)

instruments, and in isolated cases by the use of derivative financial instruments. The major prerequisite for managing interest rate risk is its effect on the company's business results. There were no open interest rate derivatives on the reporting dates.

Sensitivity analysis and exposure to interest rate risks

The exposure for interest rate risks at the balance sheet dates in the form of the carrying amount of the interest-bearing non-derivative financial instruments is as follows:

Risk position for interest rate risks — EUR '000

	31/12/2012				
	Fixed interest	Fixed and variable interest	Variable interest	Non-interest bearing	Total
Cash and cash equivalents	0	0	481,658	0	481,658
Financial assets	53,883	0	1,689	497	56,068
Financial liabilities	(306,984)	(30,139)	(538,009)	0	(875,132)
Total	**(253,101)**	**(30,139)**	**(54,662)**	**497**	**(337,405)**

Risk position for interest rate risks (prior year) — EUR '000

	31/12/2011				
	Fixed interest	Fixed and variable interest	Variable interest	Non-interest bearing	Total
Cash and cash equivalents	0	0	410,534	0	410,534
Financial assets	91,138	0	2,044	448	93,630
Current securities	0	0	6,748	0	6,748
Financial liabilities	(216,057)	(33,840)	(402,983)	0	(652,880)
Total	**(124,919)**	**(33,840)**	**16,343**	**448**	**(141,969)**

Sensitivity analyses are carried out for financial instruments at variable-interest. They assess effects arising from hypothetical changes in interest rates on profit and loss, other comprehensive income and equity.

The analysis implemented by the Lenzing Group is based on the following assumptions:

- All non-derivative financial instruments at variable-interest at the reporting date serve as the basis for the sensitivity analysis.
- The exposure corresponds to the carrying amount of the financial instruments at variable-interest.

The sensitivities and exposure for the interest rate risk related to financial instruments with a variable interest rate at the balance sheet date are as follows:

Sensitivity analysis for interest risks from financial instruments at variable interest

EUR '000

31/12/2012	Exposure variable interest	Sensitivity of increase of the interest rate level of 100 bps	Sensitivity of decrease of the interest rate level of 100 bps
Cash and cash equivalents	481,658	4,817	(4,817)
Financial assets	1,689	17	(17)
Financial liabilities	(538,009)	(5,380)	5,380
Sensitivity of the income/loss and equity	**(54,662)**	**(547)**	**547**

Sensitivity analysis for interest risks from financial instruments at variable interest (prior year)

EUR '000

31/12/2011	Exposure variable interest	Sensitivity of increase of the interest rate level of 100 bps	Sensitivity of decrease of the interest rate level of 100 bps
Cash and cash equivalents	410,534	4,105	(4,105)
Financial assets	2,044	20	(20)
Current securities	6,748	67	(67)
Financial liabilities	(402,983)	(4,030)	4,030
Sensitivity of the income/loss and equity	**16,343**	**163**	**(163)**

Additional details on the financial risk management and financial instruments are included in the Risk Report of the Lenzing Group, which in turn is part of the Management Report as at December 31, 2012 (particularly in the section "Use of financial instruments").

Exposure: + receivables, - liabilities; Sensitivity: + less interest expense, - more interest expenxse, 100 bps = 100 basic points = 1 %-point

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Notes on Lease Relationships

Note 42

Finance leases

Property, plant and equipment include building rights and other facilities acquired as a result of financial lease agreements in which the Lenzing Group serves as the lessee.

The financial leasing contract on building rights refers to plots of land which are put at the disposal of Lenzing AG for its use in return for payment of an index-secured leasing fee. After the expiration of the contract, Lenzing AG has the right to acquire the land at market value.

Other financial lease relationships refer to the renewal of small hydropower plants. In the course of the renewal, the lessor is required to build, operate and maintain the power stations. For its part, Lenzing AG purchases all the energy generated by the power plants at a contractually stipulated price. Part of this price serves to cover investment costs, and part comprises a contingent lease payment. Following the expiration of the agreements, the power plants become the property of Lenzing AG in return for payment of a transfer fee.

The carrying amounts of the leased facilities are as follows:

Carrying amount of leased assets EUR '000

2012	Land and buildings	Plants and machinery, fixtures, fittings and other assets	Total
Costs of acquisition and production	660	848	1,508
Accumulated depreciation	(65)	(140)	(205)
Carrying amount 31/12/2012	**595**	**708**	**1,303**

Carrying amount of leased assets (prior year) EUR '000

2011	Land and buildings	Plants and machinery, fixtures, fittings and other assets	Total
Costs of acquisition and production	660	848	1,508
Accumulated depreciation	(58)	(117)	(176)
Carrying amount 31/12/2011	**601**	**731**	**1,332**

The net present value of the minimum lease payments consists of the following:

Minimum lease payments as lessee (finance leases) EUR '000

	31/12/2012				31/12/2011			
	< 1 year	1-5 years	> 5 years	Total	< 1 year	1-5 years	> 5 years	Total
Total future minimum lease commitments	22	79	6,513	6,614	22	81	6,533	6,636
thereof interest component	(1)	(10)	(4,772)	(4,783)	(72)	(306)	(4,477)	(4,855)
Total	**21**	**69**	**1,741**	**1,831**	**(50)**	**(225)**	**2,056**	**1,781**

Obligations relating to finance leases are reported in the consolidated statement of financial position under "Financial liabilities" (refer to Note 31).

In the 2012 financial year, contingent lease payments to the amount of TEUR 509 (2011: TEUR 346)) were recognized as an expense. These payments relate to maintenance fees for the power plant facilities.

Note 43

Operating leasing

The Lenzing Group as a lessee

The Lenzing Group has obligations relating to leasing and rental agreements for property, plant and equipment which are not recognized in the consolidated statement of financial position. The operating results in 2012 include expenses to the amount of TEUR 7,437 (2011: TEUR 4,820) arising from leasing and rental agreements.

Future minimum lease payments for the non-cancellable term of these leases relating to IT equipment, vehicles, wagons and office premises are classified according to their term structure as follows:

Minimum lease payments as lessee (operating leases) EUR '000

	2012	2011
Within one year	6,379	5,875
In the following 2 to 5 years	12,293	12,651
Thereafter	561	886
Total	**19,233**	**19,412**

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The chart above was expanded in 2012, in particular to include the leased wagons. The previous year's values were correspondingly adjusted. The minimum lease payments before the adjustments were made amounted to TEUR 11,501 in 2011.

Terms and conditions for the main operating lease agreements can be summarized as follows:

- IT equipment: The leasing contracts boast terms of up to three years. At the end of the contractual period the equipment can be acquired by payment of an additional monthly leasing fee. There are no price adjustment clauses in these agreements.

- Vehicles: The leasing agreements feature terms of up to six years. At the end of the contractual periods there is no possibility to acquire these vehicles, and no price adjustment clauses exist.

- Wagons: The leasing contracts have terms of up to thirteen years. The possibility exists to cancel contracts once the minimum lease term has been reached. In some cases there are price adjustment clauses.

- Office space: The leasing agreements feature terms of up to six years. At the end of the contractual periods there is no possibility to acquire these premises. In some cases there are options to extent the leases as well as price adjustment clauses.

The Lenzing Group as a lessor

Future minimum lease payments for the non-cancellable term of leases mainly refer to land and buildings, and are classified according to their term structure:

Minimum lease payments as lessor (operating leases) **EUR '000**

	2012	2011
Within one year	2,135	1,933
In the following 2 to 5 years	4,905	4,733
Thereafter	13,220	13,889
Total	**20,259**	**20,555**

The most important leasing agreement relates to a commercial property on which the recycling facility is operated by RVL Reststoffverwertung Lenzing GmbH. The leasing payments are index-secured. The contract was concluded for an indefinite period of time, and may be terminated with a six-year period of notice, but not before December 31, 2029.

Notes on Related Parties and Corporate Bodies

Note 44

Disclosures on related party transactions

Overview

Related parties (companies and persons) of the Lenzing Group comprise all affiliated and associates, as well as the members of the corporate bodies (Management Board and Supervisory Board) of Lenzing AG, B & C Industrieholding GmbH and B & C Privatstiftung. B & C Industrieholding GmbH and its subsidiaries are also considered to be affiliated companies.

Amounts and transactions between Lenzing AG and its affiliated companies are eliminated in the course of consolidation, and will not be described here.

Related party relationships

Lenzing AG and its subsidiaries included in the Group taxation agreement are Group members in the tax group formed on September 25, 2009 in accordance with Section 9 Austrian Corporate Tax Law (refer to explanations on “Current and deferred taxes” included under “Accounting policies, valuation and consolidation principles”), in which B & C Industrieholding GmbH serves as the group parent and Lenzing AG and other subsidiaries of Lenzing AG are considered to be group members.

From the tax group, the Lenzing Group received a tax credit amounting to TEUR 10,115 in the 2012 financial year (2011: TEUR 5,066). In May 2012, an advance payment of TEUR 42,500 relating to the tax allocation was made to B & C Industrieholding GmbH in accordance with the contractual obligation (no such advance payment was made in the previous year).

As at December 31, 2012, the Lenzing Group recognized a liability of TEUR 38,237 (December 31, 2011: TEUR 57,732) payable to B & C Industrieholding GmbH relating to the tax allocation. This liability for the tax allocation was reported under the item “Income tax liabilities” in the consolidated statement of financial position.

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Relationships to associates

Transactions with associates mainly refer to the following:

EQUI-Fibres Beteiligungsgesellschaft mbH and its subsidiaries (EQUI):
- Supply of pulp, machinery and equipment
- Purchase of infrastructure, assembly and administrative services
- Purchase of textile pulp

Lenzing Papier GmbH (LPP):
- Provision of infrastructure and administrative services

PT. Pura Golden Lion (PGL):
- Loans payable

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

Wood Paskov s.r.o. (LWP):
- Supply of wood

The scope of significant transactions and outstanding balances with associates are as follows:

Relations to associates — EUR '000

	EQUI	LPP	PGL	RVL	LWP
2012					
Sales	58,829	11,825	0	11,716	0
Other operating income	1,027	0	0	0	20
Cost of material	(77,335)	(5)	0	0	(192)
Cost of purchased services	(11,296)	(1)	0	(11,716)	0
Other operating expenses	(452)	(255)	0	(2)	0
Interest expense	0	0	(70)	0	0
Interest income	0	0	0	0	0
31/12/2012					
Trade receivables	9,227	3,748	0	0	7
Trade payables	10,772	6	0	0	15
Loan payables	991	0	1,916	0	0
Other liabilities	0	0	0	0	0

Relations to associates (prior year) EUR '000

	EQUI	LPP	PGL	RVL	LWP
2011					
Sales	58,144	10,292	0	10,583	0
Other operating income	1,115	0	0	0	18
Cost of material	(46,254)	(5)	0	0	(151)
Cost of purchased services	(10,626)	0	0	(10,583)	0
Other operating expenses	(871)	(1,765)	0	(9)	0
Interest expense	0	0	(63)	0	0
Interest income	0	0	0	0	0
31/12/2011					
Trade receivables	10,930	3,230	0	0	7
Trade payables	4,797	4	0	0	14
Loan payables	0	0	1,895	0	0
Other liabilities	74	0	0	0	0

Deliveries and services provided to or by related companies and individuals are carried out in line with prevailing market terms and conditions.

Lenzing AG has assumed liability for specified loans to a subsidiary of EQUI-Fibres Beteiligungsgesellschaft mbH on a pro rata basis (refer to Note 46).

Remuneration paid to Management Board and Supervisory Board members

The remuneration granted by Lenzing AG (i.e. paid short-term employee benefits) to active members of the Management Board comprises the following:

Remuneration of the Management Board EUR '000

	Peter Untersperger		Friedrich Weninger		Thomas Winkler		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Fix current emoluments	484	468	433	391	405	390	1,322	1,249
Variable current emoluments	696	2,240	525	1,539	488	1,391	1,709	5,170
Total	**1,180**	**2,708**	**958**	**1,930**	**893**	**1,782**	**3,032**	**6,419**

Due to changes in provisions, the expenditures recognized in the accounts for the remuneration granted to active members of the Management Board were TEUR 328 lower in the 2012 financial year (2011: TEUR 15) than the payments listed in the chart above.

Moreover, contributions were made by Lenzing AG into a pension fund for active members of the Management Board (benefits disbursed and paid after termination of the employment contracts with the Management Board members) to the amount of TEUR 100 (2011: TEUR 94).

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The company pension scheme as well as severance payment entitlements and pension entitlements in case the employment relationship of active members of the Management Board is terminated is oriented to legal regulations. The expenditures recognized in income statement and the expenses recognized directly in equity amounted to TEUR 127 in the 2012 financial year due to changes in provisions (2011: TEUR 61).

The remuneration granted to former members of the Management Board of Lenzing AG or their surviving dependents (benefits due to employees after termination of their Management Board employment contracts) amounted to TEUR 895 in 2012 (2011: TEUR 860). The expenditures recognized in income statement and the expenses recognized directly in equity amounted to TEUR 776 in the 2012 financial year due to changes in provisions (2011: positive change of TEUR 128).

The remuneration granted to active members of the Supervisory Board of Lenzing AG (disbursed remuneration for Supervisory Board members incl. attendance fees) totaled TEUR 223 in the 2012 financial year (2011: TEUR 74). The expenditures recognized in the accounts were TEUR 34 (2011: TEUR 8) above the actual payments due to changes in provisions.

The principles underlying the remuneration system for the Management Board and Supervisory Board are presented in detail in the Corporate Governance Report.

No advance payments or loans are granted to members of the Management Board and Supervisory Board. The Lenzing Group did not assume any guarantees or accept any liabilities on behalf of the Management Board and Supervisory Board. Announcements of directors' dealings on the part of the members of the Management Board and Supervisory Board are published on the Website of the Austrian Financial Market Authority (refer to http://www.fma.gv.at).

D & O liability insurance has been taken out for members of the Management Board (as well as top executives) and members of the Supervisory Board. The insurance costs amounting to TEUR 67 in 2012 (2011: TEUR 77) were borne by the Group.

Note 45

Corporate bodies

Members of the Supervisory Board

Michael Junghans, Vienna
Chairman

Veit Sorger, Vienna
Deputy Chairman

Helmut Bernkopf, Vienna

Josef Krenner, Linz

Walter Lederer, Vienna
(until April 19, 2012)

Martin Payer, Leoben

Patrick Prügger, Vienna

Andreas Schmidradner, Vienna

Astrid Skala-Kuhmann, Icking (Germany)
(since April 19, 2012)

Works Council representatives:

Rudolf Baldinger, Lenzing
Chairman of the Works Committee
Chairman of the Waged Employees Works' Council

Georg Liftinger, Weyregg
Deputy Chairman of the Works Committee
Chairman of the Salaried Employees Works' Council

Gerhard Ratzesberger, Lenzing
Deputy Chairman of the Salaried Employees Works' Council

Johann Schernberger, Regau
Deputy Chairman of the Waged Employees Works' Council

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Members of the Management Board

Peter Untersperger, Linz
Chief Executive Officer (CEO)
Chairman of the Management Board

Friedrich Weninger, Mondsee
Chief Operating Officer (COO)

Thomas G. Winkler, Salzburg
Chief Financial Officer (CFO)

Other Disclosures

Note 46

Financial guarantee contracts, contingent liabilities and other financial obligations as well as legal risks

As at December 31, 2012, the Group assumed liability for associates amounting to TEUR 583 (December 31, 2011: TEUR 1,167).

Moreover, the Group assumed bank guarantees, particularly to secure claims of suppliers, and to a lesser extent, granted financial retentions to the amount of TEUR 2,287 (December 31, 2011: TEUR 1,647), which were not yet recognized as liabilities. It is considered unlikely that the Group will be held liable as a result of these obligations. No liability was recognized in the consolidated statement of financial position for these guarantees, as the fair value amounted to TEUR 0 at the reporting date (December 31, 2011: TEUR 0).

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

As an internationally operating company, the Lenzing Group is subject to a wide range of legal risks. In particular, these include risks relating to product defects, competition and anti-trust laws, patent and tax regulations, employee protection provisions and environmental protection regulations. The results of currently pending or future legal proceedings are not predictable, so that expenses can arise as a result of decisions made by courts or government authorities, or on the basis of concluding legal settlements, which are not fully covered by insurance policies, and could thus potentially have a material effect on the future financial position and financial performance of the Lenzing Group. Further information is contained in the Risk Report, which is part of the Group Management Report of the Lenzing Group as at December 31, 2012.

Various legal proceedings arising as a result of the Group's ordinary business operations are pending. The Management Board currently assumes that the legal proceedings which are currently known to it will not have any material effect on the financial position and financial performance of the Group at the present time, or else sufficient provisions for risks have been set aside. Some residual risks remain independent of this cautious assessment.

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Note 47

Direct and indirect shareholdings of Lenzing AG as at December 31, 2012

Lenzing AG has direct and indirect shareholdings as follows:

Investments		31/12/2012		31/12/2011	
	Currency	Common stock	Ownership interest	Common stock	Ownership interest
Fully consolidated companies:			in %		in %
ASIA Fiber Engineering GmbH, Vienna, Austria	EUR	36,336	100.00	36,336	100.00
Avit Investments Limited, Providenciales, Turks and Caicos	USD	2,201,000	100.00	2,201,000	100.00
Beech Investment s.r.o., Zlaté Moravce, Slovakia	EUR	6,639	100.00	6,639	100.00
Biocel Paskov a.s., Paskov, Czech Republic	CZK	280,000,000	100.00	280,000,000	75.00
BZL – Bildungszentrum Lenzing GmbH, Lenzing, Austria	EUR	43,604	75.00	43,604	75.00
Cellulose Consulting GmbH, Vienna, Austria	EUR	36,336	100.00	36,336	100.00
Dolan GmbH, Kelheim, Germany	EUR	1,000,000	100.00	1,000,000	100.00
Energie- und Medienzentrale Heiligenkreuz GmbH, Heiligenkreuz, Austria	EUR	72,673	100.00	72,673	100.00
European Precursor GmbH, Kelheim, Germany	EUR	25,000	51.00	25,000	51.00
European Carbon Fiber GmbH, Kelheim, Germany	EUR	25,000	100.00	25,000	100.00
LENO Electronics GmbH, Lenzing, Austria	EUR	40,000	100.00	40,000	100.00
Lenzing Beteiligungs GmbH, Lenzing, Austria	EUR	35,000	100.00	35,000	100.00
Lenzing Engineering and Technical Services (Nanjing) Co., Ltd., Nanjing, China	USD	2,100,000	100.00	2,100,000	100.00
Lenzing Fibers (Shanghai) Co., Ltd., Shanghai, China	USD	200,000	100.00	200,000	100.00
Lenzing Fibers GmbH, Heiligenkreuz, Austria	EUR	363,364	100.00	363,364	100.00
Lenzing Fibers Grimsby Limited, Grimsby, UK[1]	GBP	1	100.00	1	100.00
Lenzing Fibers Holding GmbH, Lenzing, Austria	EUR	35,000	100.00	35,000	100.00
Lenzing Fibers (Hongkong) Ltd., Hongkong	HKD	16,000,000	100.00	16,000,000	100.00
Lenzing Fibers Inc., Mobile, USA	USD	10	100.00	10	100.00
Lenzing Fibers Ltd., Manchester, UK	GBP	1	100.00	1	100.00
Lenzing Global Finance GmbH, Munich, Germany	EUR	25,000	100.00	-	-
Lenzing Holding GmbH, Lenzing, Austria	EUR	35,000	100.00	35,000	100.00
Lenzing Modi Fibers India Private Limited, Mumbai, India	INR	1,118,064,800	96.31	899,064,800	95.41
Lenzing (Nanjing) Fibers Co., Ltd., Nanjing, China	USD	64,440,000	70.00	64,440,000	70.00
Lenzing Plastics GmbH, Lenzing, Austria	EUR	35,000	100.00	35,000	100.00
LP Automotive GmbH, Lenzing, Austria	EUR	35,000	100.00	35,000	100.00
Lenzing Technik GmbH, Lenzing, Austria	EUR	35,000	100.00	35,000	100.00
Lyocell Holding Limited, Manchester, UK	GBP	1,000	100.00	1,000	100.00
Penique S.A., Panama	USD	5,000	100.00	5,000	100.00
PT. South Pacific Viscose, Purwakarta, Indonesia	IDR	72,500,000,000	90.56[1]	72,500,000,000	90.56[1]
Pulp Trading GmbH, Lenzing, Austria	EUR	40,000	100.00	40,000	100.00
Reality Paskov s.r.o., Paskov, Czech Republic	CZK	900,000	100.00	900,000	75.00
Tencel Holding Limited, Manchester, UK	GBP	1	100.00	1	100.00
Tencel Holding Overseas Limited, St. Helier, Jersey	GBP	1,001	100.00	1,001	100.00
Wasserreinhaltungsverband Lenzing – Lenzing AG, Lenzing, Austria	EUR	0	Membership	0	Membership
Companies accounted for at equity:					
RVL Reststoffverwertung Lenzing GmbH, Lenzing, Austria	EUR	36,336	50.00	36,336	50.00
WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H., Vienna, Austria	EUR	36,336	25.00	36,336	25.00
EQUI-Fibres Beteiligungsgesellschaft mbH, Kelheim, Germany	EUR	2,000,000	45.00	2,000,000	45.00
LKF Tekstil Boya Sanayi ve Ticaret Anonim Sirketi, Istanbul, Turkey	TRY	200,000	33.34	200,000	33.34
Lenzing Papier GmbH, Lenzing, Austria	EUR	35,000	40.00	35,000	40.00
PT. Pura Golden Lion, Jakarta, Indonesia	IDR	2,500,000,000	40.00	2,500,000,000	40.00
Wood Paskov s.r.o., Paskov, Czech Republic	CZK	2,000,000	50.00	2,000,000	37.50
Companies that are not consolidted:[2]					
Gemeinnützige Siedlungsgesellschaft m.b.H. für den Bezirk Vöcklabruck, Lenzing, Austria	EUR	1,155,336	99.90	1,155,336	99.90

[1] Thereof holding 4.77 % indirectly through PT. Pura Golden Lion, Jakarta, Indonesia. [2] Although the Lenzing Group holds the majority of shares in this company it is not consolidated as the Group does not exercise any control in the management sense of the term. According to the Austrian Commercial Code the equity amounts as of December 3, 2011 EUR 28,607 thousand (EUR 27,106 thousand as of December 31, 2010) and the profit for the year amounts to EUR 1,484 thousand in 2011 (2010: EUR 1,582 thousand).

The stake held by Lenzing AG in Gemeinnützige Siedlungsgesellschaft m.b.H. (GSG) amounts to TEUR 1,150 (December 31, 2011: TEUR 1,150). As a capital share in a non-consolidated company, it is reported under the item non-current financial assets. In spite of the majority share held by the Lenzing Group, it is not consolidated due to the fact that from an economic perspective the Lenzing Group does not exert control over this company.

GSG is an Austrian joint stock company which constructs, sells, rents and administers regional properties. The capital share is recognized at the cost of acquisition due to the lack of a reliable market price on an active market. For this reason its fair value cannot be disclosed. The Lenzing Group does not intend to sell this capital share.

Note 48

Events after the reporting period

There were no significant events emerging after the reporting date of December 31, 2012 which would have a material impact on the presentation of the financial position and financial performance of the Lenzing Group and hence require disclosure.

Note 49

Release of the consolidated financial statements

The present consolidated financial statements were released on March 18, 2013 (December 31, 2011: March 2, 2012) by the Management Board for review by the Supervisory Board, for submission to the Shareholders' Meeting and for subsequent publication. Within the context of the above-mentioned examination, the Supervisory Board is entitled to initiate changes to the consolidated financial statements.

Lenzing, March 18, 2013

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The Management Board:

Peter Untersperger
Chief Executive Officer
Chairman of the Management Board

with responsibility for:

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

Friedrich Weninger
Chief Operating Officer
Member of the Management Board

with responsibility for:

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

Thomas G. Winkler
Chief Financial Officer
Member of the Management Board

with responsibility for:

Global Finance
Global Information Technology
Global Purchasing
Investor Relations
Legal Management
Risk Management
Group Compliance

Auditor's Report

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Lenzing Aktiengesellschaft, Lenzing, for the fiscal year from January 1, 2012 to December 31, 2012. These consolidated financial statements comprise the consolidated balance sheet as of December 31, 2012, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ended December 31, 2012, and a summary of significant accounting policies and other explanatory notes.

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

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

Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of December 31, 2012 and of its financial performance and its cash flows for the fiscal year from January 1, 2012 to December 31, 2012 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Comments on the Management Report for the Group

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

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

Vienna, March 18, 2013

Deloitte.
Deloitte Audit Wirtschaftsprüfungs GmbH

Harald Breit Certified Public Accountant	Ulrich Dollinger Certified Public Accountant

The publication or dissemination of the consolidated financial statements bearing our opinion may only take place in the approved version. This Opinion relates exclusively to the German language version of the complete consolidated financial statements including the Group management report. For any other versions, the regulations contained in Section 281 para 2 UGB (Austrian Commercial Code) are to be observed.

Declaration of the Management Board

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

We declare to the best of our knowledge that the consolidated financial statements of Lenzing Group relating to the fiscal year 2012 give a true and fair view of the assets, liabilities, financial position and profit or loss of Lenzing Group as required by the applicable accounting standards (IFRSs).

In addition, we declare to the best of our knowledge that the management report gives a true and fair view of the development and performance of the business and the position of Lenzing Group, together with a description of the principal risks and uncertainties Lenzing Group faces.

Lenzing, March 18, 2013

The Management Board:

Peter Untersperger
Chief Executive Officer
Chairman of the Board

Responsible for:

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

Friedrich Weninger
Chief Operating Officer
Member of the Board

Responsible for:

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

Thomas G. Winkler
Chief Financial Officer
Member of the Board

Responsible for:

Global Finance
Global Information Technology
Global Purchasing
Investor Relations
Legal Management
Risk Management
Group Compliance

Report of the Supervisory Board of Lenzing AG

To the 69th Shareholders' Meeting:

Dear shareholders!

At five meetings held during the 2012 financial year, the Supervisory Board of Lenzing AG was informed by the Management Board about the company's business development, discussed the further strategic development as well as important business transactions and measures with the Management Board and passed the required resolutions. The Management Board submitted a detailed written report to the Supervisory Board at each meeting about all relevant issues relating to the business development, the financial position and profit and loss of Lenzing AG and the Lenzing Group. In addition, the Chairman and Deputy Chairman of the Supervisory Board were provided with information on a regular basis.

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

Four meetings of the Nomination Committee took place in the 2012 financial year, which in particular focused on proposals to filling Supervisory Board positions which would become vacant as well as the extension of the Management Board mandates of Peter Untersperger and Thomas G. Winkler.

The Remuneration Committee convened eight times in the course of the 2012 financial year, dealing in particular with the remuneration model applying to the Management Board as of 2013 as well as the terms of the employment contracts with the Management Board members Peter Untersperger and Thomas G. Winkler.

For the first time, the Supervisory Board established a Strategy Committee in 2012, which met twice. The committee dealt with the business strategy of the company and monitored the strategic measures being implemented by the Management Board.

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

In its meeting held on July 3, 2013, the Supervisory Board reappointed Thomas G. Winkler to serve as the Chief Financial Officer for a period of three years, until March 31, 2016. The Supervisory Board session of September 28, 2012, passed a resolution reappointing Peter Untersperger to the position of Chief Executive Officer for a further three-year term of office, until March 31, 2016.

The annual financial statements including the Management Report and Corporate Governance Report of Lenzing AG as well as the consolidated financial statements and the Group Management Report of the Lenzing Group as at 31 December 2012 were audited by Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna and granted an unqualified auditor's opinion.

The Audit Committee of the Supervisory Board reviewed the annual and consolidated financial statements, the Management Report and Group Management Report, the proposal of the Management Board for the appropriation of the total accumulated profit, as well as the Corporate Governance Report. The Audit Committee also intensively focused on the auditor's reports and exhaustively discussed the results of the audit in detail with the auditor. On the basis of its own review, the Audit Committee concurred with the results of the auditor's report. The Audit Committee dutifully reported to the Supervisory Board on this matter and recommended that the Supervisory Board propose the appointment of Deloitte Audit Wirtschaftsprüfungsgesellschaft mbH, Vienna again to the Shareholders' Meeting to serve as the auditors for the 2013 financial year.

Following its own detailed review, the Supervisory Board declared its formal approval of the Management Report and Corporate Governance Report, and thus hereby adopted the annual financial statements for 2012 pursuant to Section 96 Para. 4 Austrian Stock Corporation Act. Furthermore, it declared its approval of the consolidated financial statements and Group Management Report in accordance with Section 244 and Section 245a Austrian Commercial Code. The Supervisory Board concurred with the Management Board's proposal on the distribution of the total accumulated profit, according to which a dividend of EUR 53,100,000.00 or EUR 2.00 per no par value share is to be paid from the reported accumulated profit of EUR 147,111,280.58 and to carry forward the balance of EUR 94,011,280.58 to the new account.

The Supervisory Board agreed with the recommendation of the Audit Committee and will thus propose to the 69th Shareholders' Meeting to appoint Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna, as the auditors for the annual financial statements of the 2013 financial year.

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

Vienna, March 18, 2013

Michael Junghans
Chairman of the Supervisory Board

Long-term comparison under IFRS

under IFRS

Sales and result		2012	2011	2010	2009*)	2009	2008	2007	2006	2005
Sales	EUR mn	2.090,4	2.140,0	1.766,3	1.218,0	1.254,7	1.329,1	1.260,5	1.042,6	942,6
Sales outside of Austria	%	91,1	91,5	91,3	88,1	88,4	87,8	85,9	85,6	85,0
Income from operations (EBIT), Operating result**	EUR mn	255,0	364,0	231,9	114,2	100,7	130,3	162,3	107,8	81,8
Financial result**	EUR mn	(12,0)	(10,9)	(12,9)	(11,3)	(12,2)	(15,6)	(11,3)	(8,5)	(2,5)
Income before taxes (EBT)**	EUR mn	246,4	351,9	216,9	102,9	88,5	114,7	151,0	99,2	79,3
Income tax expense**	EUR mn	54,5	84,6	40,2	23,0	21,6	36,6	32,8	10,4	18,6
Profit for the year**	EUR mn	191,9	267,4	169,9	66,8	66,8	78,7	117,6	88,4	60,7
Profit for the year attributable to shareholders of Lenzing AG**	EUR mn	186,6	258,7	159,1	64,4	64,4	77,7	109,6	83,9	56,9
Cash flow										
Gross cash flow[6]	EUR mn	248,0	435,3	282,3	147,4	140,9	157,8	203,6	146,9	120,4
Gross cash flow as percentage of sales[6]	%	11,9	20,3	16,0	12,1	11,2	11,9	16,2	14,1	12,8
Net cash from operating activities	EUR mn	209,4	309,7	294,0	250,9	250,9	50,4	223,8	146,1	124,3
Free cash flow	EUR mn	(98,9)	93,5	13,3	92,9	92,9	(96,3)	(36,4)	43,7	35,1
Capital expenditure (Intangible assets, property, plant and equipment and non-controlling interest)	EUR mn	346,2	193,7	230,0	150,4	151,7	158,6	136,7	104,1	82,4
Assets structure										
Non-current assets	%	56,2	56,6	60,9	67,5	67,5	64,2	62,1	63,0	63,5
Current assets	%	43,8	43,4	39,1	32,5	32,5	35,8	37,9	37,0	36,5
Total assets	EUR mn	2.632,7	2.340,5	1.963,4	1.447,2	1.447,2	1.415,8	1.308,6	1.061,7	1.010,1
Capital structure										
Adjusted Equity[1]	%	43,8	44,8	38,6	42,0	42,0	42,7	44,8	51,1	48,0
Post employment benefits	%	3,8	3,7	4,2	5,7	5,7	6,2	6,3	7,0	7,2
Liabilities (excl. post employment benefits)	%	52,4	51,5	57,2	52,3	52,3	51,1	48,9	41,9	44,8
Key data										
Return on sales (ROS)[2] **	%	10,2	12,8	10,8	7,0	5,7	7,1	10,6	7,8	6,5
Return on capital employed (ROCE)[3] **	%	15,3	23,3	18,4	8,6	7,2	10,0	17,5	11,9	9,0
Return on equity (ROE)[7] **	%	16,4	29,6	24,5	11,0	11,0	13,2	20,8	17,2	12,8
EBIT[4] **	EUR mn	255,0	364,0	231,9	114,2	100,7	130,3	162,3	107,8	81,8
EBIT margin**	%	12,2	17,0	13,1	9,4	8,0	9,8	12,9	10,3	8,7
EBITDA[5] **	EUR mn	358,7	480,3	330,6	187,9	182,0	200,8	229,3	169,3	141,6
EBITDA margin**	%	17,2	22,4	18,7	15,4	14,5	15,1	18,2	16,2	15,0
Earnings per share	EUR	6,6	9,9	6,2	2,5	2,5	3,0	4,3	3,3	2,2
Number of employees at year-end		**7.033**	**6.444**	**6.143**	**6.021**	**6.021**	**5.945**	**6.043**	**5.044**	**4.860**

The computation of several ratios does not follow the recommendation for the computation of financial performance indicators as per Expert Opinion KFS/BW3 published by the Austrian Chamber of Chartered Accountants.

1) = Equity incl. grants less prop. deferred taxes (after restructurig)

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

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

4) = Income before taxes and financial result

5) = EBIT plus amortization of intangible fixed assets and depreciation of property, plant and equipment less revenues from investment grants

6) = As of 2012 income tax is now completely included as part of gross cashflow. The prior year figure was adjusted.

7) = NOPAT / Average of adjusted equity (after restructuring)

*) values adjusted according to IFRS 5

**) before restructuring

Financial Calendar 2013

Publication 2013

Final results 2012	Friday, 22 March
69th Shareholders' Meeting	Wednesday, 24 April
Quotation ex dividend	Friday, 26 April
Dividend distribution	Tuesday, 30 April
Results 1st quarter	Wednesday, 8 May
Half year results	Wednesday, 21 August
Results 3rd quarter	Thursday, 14 November

Notes

This English translation of the financial statements for the financial year ending 31 December 2012 was prepared for the company's convenience only. It is a non-binding translation of the German financial statements for the financial year ending 31 December 2012. In the event of discrepancies between this English translation and the German original the latter shall prevail.

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

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

Editorial deadline: March 18, 2013

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Lenzing Aktiengesellschaft
4860 Lenzing, Austria
www.lenzing.com

EDITED BY

Lenzing Aktiengesellschaft
Corporate Communications
Angelika Guldt
Phone: +43 (0) 76 72 701-21 27
Fax: +43 (0) 76 72 918-21 27
E-mail: a.guldt@lenzing.com

Metrum Communications GmbH, Vienna

IDEA AND DESIGN BY

ElectricArts GmbH

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PHOTOGRAPHY BY

Lenzing AG
Dave Moss
manfredlang VISUELLE KOMMUNIKATION GMBH
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Boris Renner
Elisabeth Grebe
Foto Humer
Joachim Haslinger
Michael Hägele
ElectricArts GmbH
Fotostudio Attersee
Thomas Topf

LENZING
LEADING FIBER INNOVATION

Lenzing Aktiengesellschaft · 4860 Lenzing, Austria · Phone: +43 (0) 76 72 701-0
Fax: +43 (0) 76 72 701-38 80 · E-mail: office@lenzing.com · www.lenzing.com
www.facebook.com/LenzingGroup