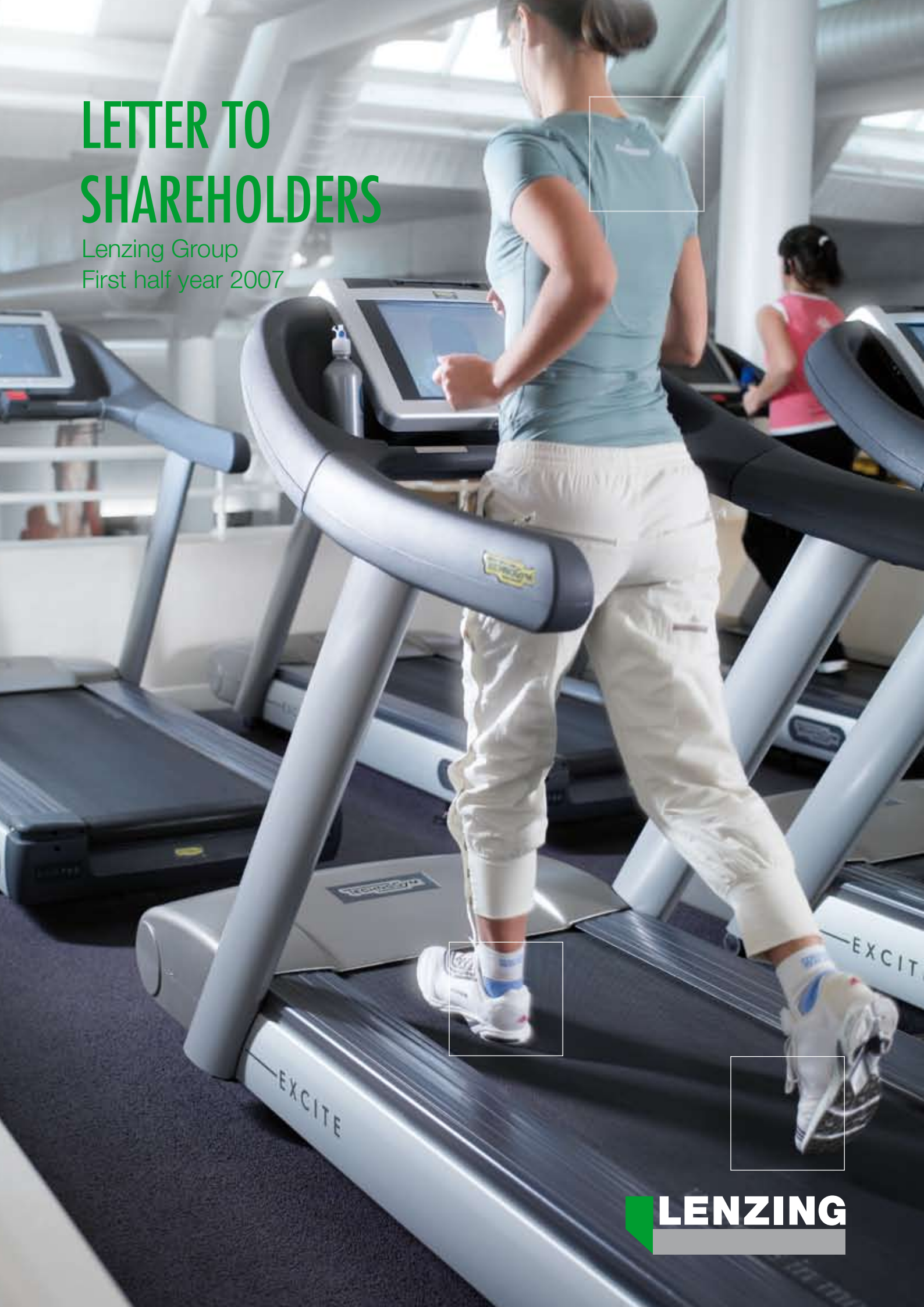
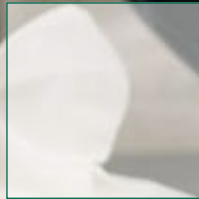
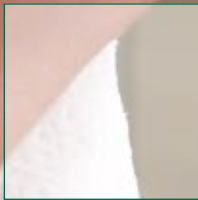


LETTER TO SHAREHOLDERS

Lenzing Group
First half year 2007





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Cover:

Work Out with Lenzing

Business Unit Textile Fibers – TENCEL® for sportswear

Business Unit Plastics – Lenzing PROFILEN® for runners' socks

Business Unit Nonwoven Fibers – TENCEL® for inserts of runners' shoes

Left:

Made by Lenzing - Naturally

Business Unit Textile Fibers – Lenzing Modal® for terry products

Business Unit Nonwoven Fibers – Lenzing Viscose® for cosmetic wipes

Business Unit Plastics – Lenzing PROFILEN® for dental floss

MANAGEMENT REPORT



General Market Environment

Good business continues

For the Lenzing Group the development of global economic conditions in the first half of the year has been altogether favorable. Continuing good business development in the threshold countries of Asia and the positive development in Europe and the USA provided sustainable support to the demand for products of our core business cellulose fibers. The textile industry in China, the world's biggest sales market for textile fibers, continues to operate at full capacity and is being carried by a strong export business. Due to favorable general economic conditions and ensuing good consumer demand there were no indications of the global fiber business slowing down in the first six months of 2007.

Development of the Lenzing Group

The Lenzing Group made optimum use of the positive general economic situation and now looks back on two quarters of successful business, especially in our core segment Fibers. All of the Group's relevant economic key figures were again improved. Last year's dynamic growth of segments Fibers and Plastics continued consistently. This development is reflected by the best half-year result in the history of the company.

Consolidated sales of the Lenzing Group went up by 15.9% to EUR 618.2 mill. for the first six months of 2007 (reference period 2006: EUR 533.5 mill.). The increase in sales was due to increased production in core business fibers, price adaptations and strong growth through acquisitions in segment Plastics. Increased energy and raw material prices over the first six months of 2007 caused an above average rise of material costs and purchased services of 20.2%.

EBIT improved by 31.5% to a new half-year record of EUR 66.3 mill. (reference period 2006: EUR 50.4 mill.). The financial result improved from minus EUR 6.4 mill. to minus EUR 4.6 mill. The result before taxes was EUR 61.7 mill. (reference period 2006: EUR 44.0 mill.), corresponding to an increase of 40.2%. The period net income of EUR 46.1 mill. was 45.4% higher than that of the first six months of 2006 (EUR 31.7 mill.). This corresponds to earnings per share for the first six months of EUR 11.53 (first six months of 2006: EUR 8.01).

The EBIT margin of the first six months of 2007 improved to 10.7% (reference period 2006: 9.4%), the EBITDA margin was 16.0% (reference period 2006: 15.3%). The mid-year balance sheet as of 30 June 2007 shows equity of EUR 507.8 mill. (31 December 2006: EUR 516.0 mill.). Due to the expansion of the balance sheet total to EUR 1.22 bill. this corresponds to an adjusted* equity ratio of 43.7% (year-end 2006: 51.1%). Dynamic growth and acquisition activity are reflected by a cash flow from investments of minus EUR 194.2 mill. (reference period 2006: minus EUR 36.2 mill.).

* incl. government grants less proportionate deferred taxes.

Left:

Breakfast with Lenzing

Business Unit Pulp – Sodium sulfate for the glass industry
Business Unit Pulp – Acetic acid for the food industry
Business Unit Plastics – Special films for labels

At the end of June 2007 the Lenzing Group employed a staff of 5,820 (31 December 2006: 5,044). This increase was caused by the start-up of production at the new viscose fiber plant in Nanjing (China) and by company acquisitions in segment Plastics.

Segment Reporting

Segment Fibers

The development of the business environment of segment Fibers in the first six months of 2007 was altogether positive. Cotton prices, an important indicator for the whole fiber industry pointed upward and reached a current annual high of 63 US ct/lb (Cotton A Index) at the end of June. No essential change in the price of polyester fibers was observed. The margins of producers, however, were generally under pressure due to the high crude oil price.

The strong international presence of the Lenzing Group and its attractive product portfolio gave rise to very strong demand for Lenzing fibers in all global regions. Lenzing's strategy of taking specific fiber morphology as the starting point for opening new areas of application has been a full success. It led to the continuous improvement of the product mix towards high-quality products with good margins.

Sales of segment Fibers increased from EUR 445.6 mill. (first six months of 2006) to EUR 502.1 mill. for the first six months of 2007, corresponding to an increase of 12.7%. This rise is reflected as well in the EBIT of the segment, rising from EUR 41.9 mill. to 56.9 mill.

Raw material and energy price increases were absorbed by fiber price adaptations. All fiber production facilities of the Lenzing Group continue to run at full capacity. Stock levels are at an all-time low, despite continuous production increases. Orders have been booked for many weeks in advance.

**Investments in
segment Fibers**

The new viscose fiber production plant in Nanjing (China), the second Asian production site of the Lenzing Group and its sixth globally, has successfully started operations. The nominal capacity is 60,000 tons per year. Due to the good start-up, full production capacity is expected to be reached in the current business year, enabling a positive contribution margin for the first (short) business year. Current production consists of fibers for textile applications for the Chinese market. Production of fibers for nonwovens applications will start in the second half of the year. The scheduled investment target of EUR 65 mill. was met.

In the first half of 2007 the Lenzing Group raised its share in the Indonesian subsidiary PT. South Pacific Viscose (SPV) from 41.98% to 85.79%. This step was a logical continuation of the Lenzing Group's strategy of expansion and globalization. Lenzing has held the industrial leadership at SPV for many years. SPV has therefore already been a fully consolidated subsidiary of the Lenzing Group. The increase in shares results in a decrease of the minority interests in equity as well as in the future period results of the Lenzing Group.

Apart from the plant at Lenzing, PT. South Pacific Viscose is the biggest viscose fiber production plant with an annual capacity of 150,000 tons. The plant employs a staff of 1,500.

A basic agreement was signed in the first half of 2007 with the Indian Modi Group on the construction of a new viscose fiber production plant in India. The new plant will be among the most modern viscose fiber production plants of the world, its environmental protection facilities will be state-of-the-art.

The production capacity of the first construction phase is scheduled for 80,000 tons of fibers p.a. for textiles and nonwovens. The preliminary budget for investment including working capital is USD 200 mill. The site is located in the state of Maharashtra, in an industrial park 45 miles south of Mumbai. Production start-up is scheduled for 2010/11, after two years of construction, with a staff of 700 to 800. Lenzing's current presence in India is a branch office and its customers have to pay high import duty on Lenzing fibers.

Lenzing's partner, the Modi Group, is one of the most successful Indian conglomerates, with annual sales of USD 1.2 bill. Lenzing will hold the majority of shares in the new viscose fiber plant and will bring its technical competence and operational expertise into the new joint venture. Modi will provide the land and local experience. The required permissions for the construction and operation of the plant have already been obtained and negotiations with banks on financing are about to be concluded.

A comprehensive investment program at the Lenzing site in segment Fibers is currently under way, concentrating on the modernization and flexibility of fiber production. The objective of this investment program is to further focus production on high quality specialty fibers. The major part of the project is expected to be concluded by the end of the year.

**Business Units
Textile Fibers and
Nonwoven Fibers**

The high-quality fiber specialties of Business Unit Textile Fibers are currently very much in demand at the market. Lenzing obtained a major contract for Lenzing FR[®], the heat protection fiber, for use in US army clothing. The demand for Lenzing Modal[®] and MicroModal[®], as well as TENCEL[®] remains unbroken. New fiber applications were successfully introduced to the market with numerous textile brand producers and a number of new collaboration projects are being prepared.

The demand for fibers for nonwovens and technical textiles was gratifying as well. TENCEL[®] fibers provided major success in the home textile sector. Both business units achieved new record results and their economic key figures exceeded plans.

Outlook Fibers

The general economic conditions for the fiber industry continue to be favorable. Business Units Textile Fibers and Nonwoven Fibers are both expected to continue their excellent development of business. Further price increases required for absorbing the rising raw material prices have already been announced for the third quarter and have been accepted by the market. Provided global economic conditions remain stable, no weakening of the demand for Lenzing fibers is to be expected in the fourth quarter either.

Taking into account the capacity expansion at the Lenzing site and additional quantities produced at the new viscose fiber plant in Nanjing, a substantial increase of sales and results in segment Fibers can be expected.

Business Unit Pulp

The international pulp market in the first six months of 2007 was characterized by strong demand and rising prices. The price for paper pulp (NBSK) had reached almost USD 800 at the end of June. The price development of dissolving pulp was even more dynamic.

The supply of the non-integrated sites of the Lenzing Group has been secured on the basis of long-term contracts. Pulp production at the Lenzing site went ahead on schedule but was burdened by high wood prices.

Additional capacity for the production of acetic acid and furfural went into operation at the site. Due to strong demand the additional quantities sold well, at rising prices.

Outlook Pulp

The pulp supply for the Lenzing Group for the second half of the year is secure, despite the strained situation at the global market for dissolving pulp. International pulp prices continue to point upwards.

Business Unit Energy

Business Unit Energy increased the use of recyclable material for energy generation to counter the price increase in energy prices. The price of natural gas is currently at a high level, a situation that is not expected to change in the medium term. Rising prices for purchased electrical power are expected for the next year. Year 2007 has been declared Save Energy Year, dedicated to implementing energy saving measures and projects. A new thick liquor combustion unit (investment volume about EUR 40 mill.) was successfully started up after a project period of two years.

Segment Engineering

The market environment of segment Engineering in the first six months was characterized by the continued good investment readiness of the international pulp and viscose industry.

This enabled good order bookings in business fields fiber and pulp technology, particularly in separation technology. The business development of mechanical construction and automation was positive as well. Mechatronics showed a gratifying development of sales in electronics, the development of marking systems was weaker than planned.

The overall half-year segment result of Engineering of EUR 4.5 mill. (reference period 2006: EUR 4.3 mill.) was satisfactory. Sales were increased from EUR 45.4 mill (first six months of 2006) to EUR 52.0 mill., corresponding to an increase of 14.5%.

Outlook Engineering

The current development of business is expected to continue in the second half of the year, taking into consideration the unchanged and favorable general economic situation and the good level of order bookings. Construction activity of the production facilities for Lenzing's sheet metal technology division is on schedule. Operations will start in the next weeks. An area of 49,000 sq. ft. will be dedicated to high-tech sheet metal engineering for customers from a variety of industries, such as automotive and medical.

Segment Plastics

Lenzing made several acquisitions in segment Plastics in the first half of 2007, realizing a quality of expansion that places the company on a new level of industrial activity. Sales were increased from EUR 47.6 mill (first six months of 2006) to EUR 61.6 mill., corresponding to an increase of 29.4%. This increase is reflected as well in the EBIT of the segment, rising from EUR 4.7 mill. to EUR 5.7 mill..

The acquisition of Hahl Group GmbH, an important European producer of cut plastic filaments for the production of synthetic brushes, bristles and fabrics, made Lenzing a leading supplier in this segment. The company with a staff of 240 realized sales of EUR 35 mill. in 2006. In addition to the production site in Germany, a production site in Plana, Czech Republic, and a sales office in Great Britain form part of the company.

The assets of German plastics producer Pedex + Co GmbH. were acquired in the process of insolvency proceedings and brought into two newly founded companies. The company is one of the leading suppliers of specialty filaments for dental medicine and oral care. It complements the product range of Hahl in the market of high-quality filaments. Pedex previously generated annual sales of EUR 12 mill. It produces plastic filaments used for applications in cosmetics and hygiene, such as toothbrushes and medical equipment, as well as brushes for industrial, professional and domestic applications.

For the current business year 2007 Pedex expects a positive result again. Pedex intends to enhance its position as innovation leader.

Another step was the acquisition of the majority of the assets of US monofilament plastics producer Glassmaster. The company had been on offer after Chapter 11 proceedings. It produces cut plastic filaments for synthetic brushes, bristles and fabrics for industry and trade. Lenzing will continue Glassmaster's monofilament business under the new company name Hahl Inc. at the current location in Lexington/South Carolina. For this purpose, the assets were brought into two newly founded companies. Hahl Inc. forms the basis of the US business which currently shows ongoing positive development.

These three acquisitions made Lenzing a global supplier of industrial brushes with an attractive position in the market. The Hahl Group has been consolidated since April, Pedex since May and Hahl Inc. since June.

**Expansion into
the carbon fiber
business**

Another strategic milestone in business field plastics is Lenzing's entry into the carbon fiber business. Comprehensive agreements on the production of carbon fibers in the form of a joint venture were made with SGL Carbon AG in Wiesbaden und Kelheim Fibres GmbH in Kelheim.

The new joint venture, European Precursor GmbH, will produce the pre-material for carbon fiber production at the Kelheim site. European Precursor GmbH will start operations in the next months. In the medium term up EUR 50 mill. are expected to be invested into capacity expansion. These activities in the new business field carbon fibers are intended to generate a significant sales contribution in the double-digit million euro range for Lenzing's business unit Plastics by the end of the decade.

Moreover, it was agreed with SGL Carbon AG that Lenzing will take part in the production of carbon fibers themselves in the form of a joint venture yet to be concluded.

The high strength of carbon fibers (four times higher than that of the best steel alloys) makes them the promising construction material of the future. The use of carbon fiber in the aviation, automotive and shipping industries will rapidly increase in the future. Market analyses expect annual growth rates of about 10% for the coming years. The carbon fiber demand of the wind power industry for the new generation of rotor blades spanning almost 200 feet is high as well. Carbon fibers are moreover used in the automotive industry, for yacht construction and sports equipment.

The entry into the carbon fiber business is another important strategic step in the growth of Business Unit Plastics.

**Stable business
development
of the current
core business**

The development of the current operative business of Business Unit Plastics as a supplier of high-quality products into niche markets was gratifying. Good construction activity enabled sales of construction materials above expectations. The demand for MOPP* and cable industry products, as well as for PTFE** products was very positive, too.

Outlook Plastics

A positive economic environment is expected for the second half of 2007 as well. The integration of the new acquisitions makes good progress; a significant increase in sales and results can therefore be expected due to these.

* MOPP: Monoaxially oriented polypropylene

** PTFE: polytetrafluoroethylene

Segment Paper

The market situation, in particular for envelope paper, has slightly improved and demand for poster and recycling paper has picked up. Production was satisfactory and quality and efficiency were improved further. More price increases were announced for the third quarter of 2007.

Sales of segment Paper increased from EUR 27.4 mill. (first six months of 2006) to EUR 30.7 mill. in the first six months of 2007, corresponding to a rise of 12.0%. Due to rising raw material costs of pulp and starch, the segment's EBIT remained unchanged at minus EUR 0,4 mill compared to the first six months of 2006.

Outlook Paper

Although the result of the first six months was still slightly negative, slight improvement in the course of business year 2007 seems possible.

Investor Relations

A share price rise of 55% in the first half of 2007 made Lenzing one of the strongest industrial performers at the Vienna stock exchange.

This year's regular shareholders' meeting decided to distribute a dividend of EUR 10.00 per share for business year 2006 (EUR 8.00 for business year 2005). Martin Payer, managing director of the Polymer Competence Center Leoben, is the new member elected to the supervisory board. The expired supervisory board mandates of Karl Schmutzer und Horst Bednar were extended for five more years. The constituent meeting of the supervisory board that followed the regular shareholders' meeting re-elected both Karl Schmutzer as chairman and Walter Lederer as his deputy.

Risk Report

There have been no significant changes to the risk categories as detailed in the annual report for 2006.

Risk management now follows the COSO* ERM** framework approach with the goal of uniform identification, evaluation and treatment of risks.

Outlook Lenzing Group

The positive general economic situation will continue throughout the second half of 2007. Recent uncertainty in US capital markets has so far had no negative impact on the business segments of the Lenzing Group. Increased raw material and energy prices were absorbed by product price increases due to good demand. Cost savings were implemented by internal efficiency increases. The weakening dollar, however, will exert increasing pressure on the European textile fiber market.

Lenzing will continue its course of expansion in the second half of the year as well. The excellent development of segment Fibers and the very good performance of Plastics and Engineering lead us to expect a new record result for 2007, provided there will be no significant change in the global economic climate.

Lenzing, 24 August 2007

The Management Board

* COSO: Committee of Sponsoring Organizations of the Treadway Commission

** ERM: Enterprise Risk Management

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

According to International Financial Reporting Standards (IFRS)

sicher tanken



Income Statement

		4-6/2007	4-6/2006	1-6/2007	1-6/2006
	Note	EUR mill.	EUR mill.	EUR mill.	EUR mill.
Sales	(5)	321.0	272.2	618.2	533.5
Change in inventories of finished goods and work in progress		0.4	1.6	(5.1)	(1.3)
Work performed by the Group and capitalized	(6)	8.6	2.6	15.0	7.4
Other operating income		2.9	1.5	5.4	6.1
Cost of material and purchased services		(189.1)	(155.6)	(356.9)	(296.9)
Personnel expenses	(7)	(60.0)	(53.2)	(114.8)	(106.9)
Amortization of intangible assets and depreciation of property, plant and equipment	(8)	(17.2)	(16.6)	(34.6)	(33.4)
Other operating expenses		(32.8)	(24.9)	(60.9)	(58.1)
Income from operations (EBIT)	(5)	33.8	27.6	66.3	50.4
Income from investments in associates		0.1	0.1	(0.1)	0.3
Other investment income / expense	(9)	0.3	(1.0)	1.1	(1.0)
Finance costs		(2.8)	(2.3)	(5.6)	(5.7)
Income before tax (EBT)		31.4	24.4	61.7	44.0
Income tax		(8.3)	(6.8)	(15.6)	(12.3)
Net income		23.1	17.6	46.1	31.7
Attributable to shareholders of Lenzing AG		21.0	16.2	42.3	29.4
Attributable to minority shareholders		2.1	1.4	3.8	2.3
		EUR	EUR	EUR	EUR
Earnings per share		5.75	4.70	11.53	8.01

Left:

Lenzing Protects

Business Unit Paper – Paper for billboard advertising

Business Unit Textile Fibers – Lenzing FR® for protective wear

Business Unit Engineering – High tech for the automotive industry

Balance Sheet

Assets		30/06/2007	31/12/2006
	Note	EUR mill.	EUR mill.
Goodwill	(4)	78.6	3.8
Other intangible assets		10.0	7.1
Property, plant and equipment	(10)	690.2	626.0
Investments in associates		9.7	9.8
Other financial assets		17.8	17.7
Deferred taxes		0.9	1.4
Other non-current assets		3.0	3.1
Non-current assets		810.2	668.9
Inventories	(11)	151.7	123.9
Trade receivables	(12)	135.4	119.4
Current taxes		3.6	6.8
Other receivables and assets		41.3	45.7
Investments		8.2	8.2
Cash and cash equivalents		69.5	88.8
Current assets		409.7	392.8
		1,219.9	1,061.7
Equity and Liabilities			
	Note	EUR mill.	EUR mill.
Equity attributable to shareholders of Lenzing AG		493.7	490.3
Minority interests		14.1	25.7
Equity		507.8	516.0
Government grants		32.0	34.0
Financial liabilities	(13)	295.6	214.5
Trade payables		0.6	0.6
Deferred taxes		15.4	8.1
Provisions		87.3	82.4
Other liabilities		3.3	3.3
Non-current liabilities		402.2	308.9
Financial liabilities	(13)	57.5	28.4
Trade payables	(14)	87.0	71.9
Provisions for current income tax		22.0	14.5
Other provisions		71.3	61.1
Other liabilities	(15)	40.1	26.9
Current liabilities		277.9	202.8
		1,219.9	1,061.7

Cash Flow Statement

		1-6/2007	1-6/2006
	Note	TEUR	TEUR
Gross cash flow		82.4	76.2
Change in working capital		20.6	2.1
Operating cash flow	(17)	103.0	78.3
- Acquisition of non-current assets	(17)	(195.2)	(36.5)
+ Proceeds from the disposal / redemption of non-current assets		1.0	0.3
Net cash used in investing activities		(194.2)	(36.2)
+ Payments of other shareholders		0.0	3.0
- Dividends paid to shareholders	(18)	(38.1)	(29.4)
+ Receipts from financing activities	(17)	149.2	36.2
- Redemption of loans		(39.1)	(32.4)
Net cash used in (-) / provided by (+) financing activities		72.0	(22.6)
Change in cash and cash equivalents		(19.2)	19.5
Cash and cash equivalents at the beginning of the year		88.8	77.1
Currency translation adjustment relating to cash and cash equivalents		(0.1)	(1.1)
Cash and cash equivalents at the end of the reporting period		69.5	95.5

Development of Equity

Development of equity	Share of Lenzing AG shareholders					Minority interests	Equity Total
	Common stock	Capital reserves	Currency translation reserves	Retained earnings and other reserves	Total		
	EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.
Balance as at 01/01/2006	26.7	63.6	1.6	343.9	435.8	19.7	455.5
Exchange differences on translation of financial statements presented in foreign currencies			(3.0)		(3.0)	(1.4)	(4.4)
Other income and expenses recognized directly in equity				3.9	3.9	0.0	3.9
Net income/(loss) recognized directly in equity	0.0	0.0	(3.0)	3.9	0.9	(1.4)	(0.5)
Net income				29.4	29.4	2.3	31.7
Total recognized income and expense for the period	0.0	0.0	(3.0)	33.3	30.3	0.9	31.2
Contribution to capital						3.0	3.0
Dividends				(29.4)	(29.4)	0.0	(29.4)
Balance as at 30/06/2006	26.7	63.6	(1.4)	347.8	436.7	23.6	460.3
Balance as at 01/01/2007	26.7	63.6	(2.7)	402.7	490.3	25.7	516.0
Exchange differences on translation of financial statements presented in foreign currencies			(1.9)		(1.9)	0.0	(1.9)
Other income and expenses recognized directly in equity				(0.3)	(0.3)	0.0	(0.3)
Net income/(loss) recognized directly in equity	0.0	0.0	(1.9)	(0.3)	(2.2)	0.0	(2.2)
Net income				42.3	42.3	3.8	46.1
Total recognized income and expense for the period	0.0	0.0	(1.9)	42.0	40.1	3.8	43.9
Change of consolidated group						(14.0)	(14.0)
Dividends				(36.7)	(36.7)	(1.4)	(38.1)
Balance as at 30/06/2007	26.7	63.6	(4.6)	408.0	493.7	14.1	507.8

Key Data

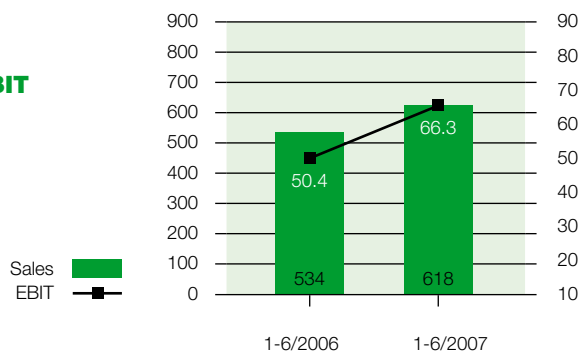
		30/06/2007	31/12/2006
Equity adjusted*	EUR mill.	533.2	542.9
Equity ratio	%	43.7	51.1
Net debt	EUR mill.	275.4	145.9
Net gearing	%	51.6	26.9
Number of employees at period end		5,820	5,044

		1-6/2007	1-6/2006
EBIT margin	%	10.7	9.4
EBITDA margin	%	16.0	15.3
Capital expenditure for intangibles, property, plant and equipment	EUR mill.	72.6	36.4

* Equity including government grants less proportionate deferred taxes

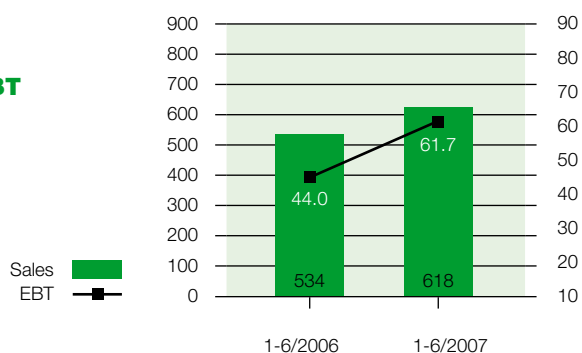
Sales compared to EBIT

EUR mill.



Sales compared to EBT

EUR mill.



SELECTED EXPLANATORY NOTES



Note 01: Presentation of the Interim Financial Report

These condensed interim consolidated financial statements of the Lenzing Group for the first half of the year, presented as at 30 June 2007, were prepared in accordance with IAS 34 “Interim financial reporting”. The applied accounting and valuation methods are in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The figures provided in the interim consolidated financial statements and these notes are rounded to the nearest million (“EUR mill.”) unless indicated otherwise.

Note 02: Accounting and Valuation Methods

In preparing these interim financial statements the same accounting and valuation methods were applied as were used in the latest annual consolidated financial statements of the Lenzing Group as at 31 December 2006.

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

Unit	Currency	Middle Rate	
		30/06/2007	31/12/2006
1	EUR / USD US Dollar	1.3508	1.3180
1	EUR / GBP British Pound	0.6736	0.6715
1	EUR / CNY Renminbi Yuan	10.2730	10.2734
1	EUR / HKD Hongkong Dollar	10.5510	10.2400
1	EUR / CZK Czech Crown (Koruna)	28.6850	27.5200

Note 03: Changes in Estimates

In the reporting period no changes in estimates of amounts presented in earlier interim reporting periods or prior financial years were made which would have a material effect in the current interim reporting period.

Left:

Lenzing Covers all Angles

Business Unit Plastics – Lenzing PROFILEN® for textile architecture

Business Unit Pulp – Acetic acid for the food industry

Business Unit Pulp – Sodium sulfate for the glass industry

Note 04: Scope of Consolidation

The following changes in the scope of consolidation occurred in the reporting period:

Formation of new companies

- April 2007: Pedex GmbH and Pedex Grundstücksgesellschaft mbH,
both in Wald-Michelbach, Germany
- May 2007: LP Automotive GmbH, Lenzing, Austria
Lenzing USA Inc. and Hahl Inc., both in Lexington, South Carolina, USA
European Carbon Fibers GmbH, Kelheim, Germany

Change of investment

44% share of European Precursor GmbH sold: The share of the Lenzing Group decreased from 91% to 51%.

Acquisitions

22 March 2007: Full acquisition (100%) of Hahl Group GmbH

20 June 2007: Full acquisition of Avit Investments Ltd. and Penique S.A., jointly holding 43,81% of the already fully consolidated subsidiary PT. South Pacific Viscose (SPV).
This transaction raised the share of the Lenzing Group in PT. South Pacific Viscose from 41,98% to 85,79%.

These transactions were recognized by applying the purchasing method. The acquired assets, assumed liabilities and the resulting goodwill are as follows:

Hahl Group GmbH, Avit Investments Ltd. and Penique S.A.	01/01 - 30/06/2007		
	Acquiree's carrying amount before combination*	Fair value adjustments	Fair value
	EUR mill.	EUR mill.	EUR mill.
Assets			
Goodwill	0.6	74.2	74.8
Other intangible assets, property, plant and equipment	55.6	21.0	76.6
Deferred tax	0.9	0.2	1.1
Other non-current assets	3.2	0.0	3.2
Non-current assets	60.3	95.4	155.7
Inventories	36.0	0.3	36.3
Receivables	28.7	0.1	28.8
Cash and cash equivalents	15.3	0.0	15.3
Current assets	80.0	0.4	80.4
	140.3	95.8	236.1
Liabilities			
Financial liabilities	(35.6)	0.0	(35.6)
Deferred tax	(0.2)	(6.5)	(6.7)
Provisions	(6.1)	(0.9)	(7.0)
Non-current liabilities	(41.9)	(7.4)	(49.3)
Financial liabilities	(8.6)	0.0	(8.6)
Provisions including current income tax	(12.4)	(0.1)	(12.5)
Payables	(25.0)	0.0	(25.0)
Current liabilities	(46.0)	(0.1)	(46.1)
	(87.9)	(7.5)	(95.4)
Former share in the equity of SPV and other shareholders' share in equity			(18.5)
Total			(122.2)

* incl. 100% of the carrying amounts attributable to the share in PT. South Pacific Viscose, Indonesia, of which 43.81% were acquired indirectly

The assessed fair values are preliminary.

The goodwill arising from the transactions described is justified by the anticipated positive contributions to results expected to be delivered by the acquired entities and expected due to the enhanced sales perspectives for products of the Group. Moreover, synergies in the operative activities of the Group are expected.

The period net income of the Hahl Group from the date of acquisition, which is included in this interim financial report, is EUR 0.4 mill. If the period net income would have been included from 1 January 2007 on, consolidated sales for the reporting period would have increased by EUR 10.0 mill and period net income would have improved by EUR 0.7 mill.

The acquisition of shares in Avit Investments Ltd. and Penique S.A. did not affect the period result from 1 January to 30 June 2007. First consolidation was on 30 June 2007. If the transaction would have been included from 1 January 2007 on, the minority interest in the period result would have been lower by EUR 3.2 mill.

Note 05: Segment Reporting

Segment sales and segment results by business segments provided by internal reporting for the management board are presented as follows:

1-6/2007	Fibers	Paper	Plastics	Engineering	Other	Consolidation	Total
Sales to external customers	495.8	30.7	61.0	30.3	0.4	0.0	618.2
Inter-segment sales	6.3	0.0	0.6	21.7	0.6	(29.2)	0.0
Total Sales	502.1	30.7	61.6	52.0	1.0	(29.2)	618.2
Segment result (EBIT)	56.9	(0.4)	5.7	4.5	0.1	(0.5)	66.3

1-6/2006	Fibers	Paper	Plastics	Engineering	Other	Consolidation	Total
Sales to external customers	439.6	27.4	46.8	19.3	0.4	0.0	533.5
Inter-segment sales	6.0	0.0	0.8	26.1	0.8	(33.7)	0.0
Total Sales	445.6	27.4	47.6	45.4	1.2	(33.7)	533.5
Segment result (EBIT)	41.9	(0.4)	4.7	4.3	0.3	(0.4)	50.4

Note 06: Work performed by the Group and Capitalized

This heading represents the credit / charge required to reflect the manufacturing costs that were capitalized as part of the production costs of fixed assets. The increase from EUR 7.4 mill. to EUR 15.0 mill. was caused by the increased volume of capital spending for projects constructed by the Group (see note 10).

Note 07: Personnel Expenses

Total personnel expenses were EUR 114.8 mill. (reference period 2006: EUR 106.9 mill). EUR 4.5 mill. (reference period 2006: EUR 3.8 mill.) of these were expenses for severance payments and pensions.

Note 08: Amortization of Intangible Assets and Depreciation of Property, Plant and Equipment

Amortization of intangible assets and depreciation of property, plant and equipment amounted to EUR 34.6 mill. (reference period 2006: EUR 33.4 mill.), exclusively comprising systematic amortization and depreciation

Note 09: Other Investment Income

The increase is due to rising interest rates and due to lower foreign exchange losses arising from the valuation of financial assets, compared with previous year's reference period.

Note 10: Property, Plant and Equipment

In the reporting period the Lenzing Group invested EUR 70.7 mill. (reference period 2006: EUR 36.4 mill) in property, plant and equipment, the capital expenditure essentially concerning the completion of the viscose fiber plant in Nanjing and major investment projects at the Lenzing site. Moreover, the assets of German plastics producer Pedex and the majority of the assets of US plastics producer Glassmaster were acquired. In addition to the investments described, tangible assets of the Lenzing Group increased because of the acquisitions completed in the reporting period (see Note 4).

Open purchase orders for the delivery of property, plant and equipment as at 30 June 2007 came to EUR 62.7 mill. (31 December 2006: EUR 58.4 mill).

Note 11: Inventories

Inventories increased by EUR 27.8 mill. due to general increases in raw material inventories (wood and pulp) and above all to acquisitions in segment plastics (EUR 10.6 mill) and the start of production at the viscose fiber plant in Nanjing (EUR 7.5 mill., mainly attributable to raw materials).

Note 12: Trade Receivables

The increase in trade receivables of EUR 16.0 mill. mainly results from progressing construction contracts in segment Engineering (EUR 9.5 mill.) and the acquisitions in segment Plastics (EUR 7.7 mill.).

Note 13: Financial Liabilities

Financial liabilities in total increased by EUR 110.2 mill. to EUR 353.1 mill. due to financing required for the completion and start-up of the viscose fiber plant in Nanjing (EUR 13.7 mill.) and for the acquisitions made in the reporting period.

Note 14: Trade Payables

The increase of trade payables by EUR 15.1 mill. relates to the production start-up in Nanjing and investments and acquisitions in segment Plastics.

Note 15: Other Current Liabilities

The increase of EUR 13.2 mill. was due to advances received from customers in line with the progressing completion of construction contracts in segment Engineering (EUR 4.4 mill.) and periodic accruals for personnel expenses (EUR 8.8 mill.).

Note 16: Contingent Liabilities

The following table compares the commitments and contingent liabilities of the Group as at 31 December 2006 and 30 June 2007:

	30/06/2007	31/12/2006
	EUR mill.	EUR mill.
Assumption of liability for associated companies	10.9	9.3
Assumption of liability for third parties	0.5	2.0

Litigation

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

Note 17: Cash Flow Statement

The increase of the operating cash flow is in line with the positive development of results. More net cash was used in investing activities: capital expenditure for property, plant and equipment, as well as intangible assets was EUR 72.6 mill. (reference period 2006: EUR 36.4 mill.). Moreover, considerable acquisitions of subsidiaries (EUR 122,4 mill.) were made (see note 4). To finance these transactions external funds were used to a larger extent.

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

Note 18: Dividends Paid

In the reporting period the following dividend was paid to shareholders of the parent company:

	Total	Number of shares	Dividend per share
	EUR mill.		EUR
Paid in 2007 for business year 2006	36.7	3,675,000	10,00
Paid in 2006 for business year 2005	29.4	3,675,000	8,00

In the reporting period subsidiaries distributed EUR 1.4 mill. (reference period 2006: none) to minority shareholders.

Note 19: Related Party Transactions

The group of related parties (companies and persons) is essentially identical with that of the latest annual financial report. Avit Investments Ltd. and Penique S.A., as shareholders in PT. South Pacific Viscose were included in the group of related parties in the latest annual financial report and are now subsidiaries of the Group.

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

	1-6/2007	1-6/2006
	EUR mill.	EUR mill.
Sales	23.2	19.7
Other operating income	0.3	0.1
Cost of material	2.9	0.1
	30/06/2007	31/12/2006
	EUR mill.	EUR mill.
Receivables	4.7	4.2
Liabilities	0.4	0.0
Advances received under open construction contracts (less costs incurred and recognized profits)	4.8	1.6

Note 20: Derivative Financial Instruments

The Lenzing Group uses foreign currency forward contracts and options, which are measured at their market value, to hedge currency risks arising in the course of business operations. The risk inherent in gas price fluctuations is covered by commodity future contracts.

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

Fair Value Hedges

Type of derivative financial instrument	Gain (+) / Loss (-)	
	30/06/2007	31/12/2006
	EUR mill.	EUR mill.
Foreign currency forward contracts	0.9	1.5
Foreign currency options	0.0	0.2

Cash Flow Hedges

Type of derivative financial instrument	Gain (+) / Loss (-)	
	30/06/2007	31/12/2006
	EUR mill.	EUR mill.
Foreign currency forward contracts	1.6	3.0
Foreign currency options	1.4	0.9
Other hedging instruments	(0.5)	(1.0)

The hedges as of 30 June 2007 have a maturity of up to 18 months.

Note 21: Events after the Balance Sheet Date

No significant events that require reporting took place between the balance sheet date and the release date for publication on 24 August 2007.

Note 22: Statement of the Management Board in compliance with section 87 Austrian Stock Exchange Act (Börsegesetz)

The management board states that these condensed interim consolidated financial statements of the Lenzing Group for the period from 1 January 2007 to 30 June 2007, which were compiled in accordance with IAS 34 “Interim financial reporting”, represent fairly, in all material respects, the financial position and the financial performance of all consolidated companies.

The management report for the first half of the year, too, represents fairly, in all material respects, the financial position and performance of the Lenzing Group and provides information on the business development and the effect of essential risks and uncertainties on the business activities of the Lenzing Group.

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

Lenzing, 24 August 2007

The Management Board

Thomas Fahnemann
Christian Reisinger
Peter Untersperger

A person is sitting on a dark brown leather sofa, leaning back against a grey pillow. In the foreground, a round, ornate brass tray holds a stack of books and a grey alarm clock. The scene is dimly lit, creating a cozy atmosphere. The text is overlaid on the right side of the image.

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The English translation of the letter to shareholders for the first half year 2007 was prepared for the company's convenience only.
It is not a binding legal translation of the German letter to shareholders for the first half year 2007. In the event of discrepancies between the English translation and the German original the latter shall prevail.

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