



LETTER TO SHAREHOLDERS
REPORT ON HY1/2016

LINZ TEXTIL HOLDING AG

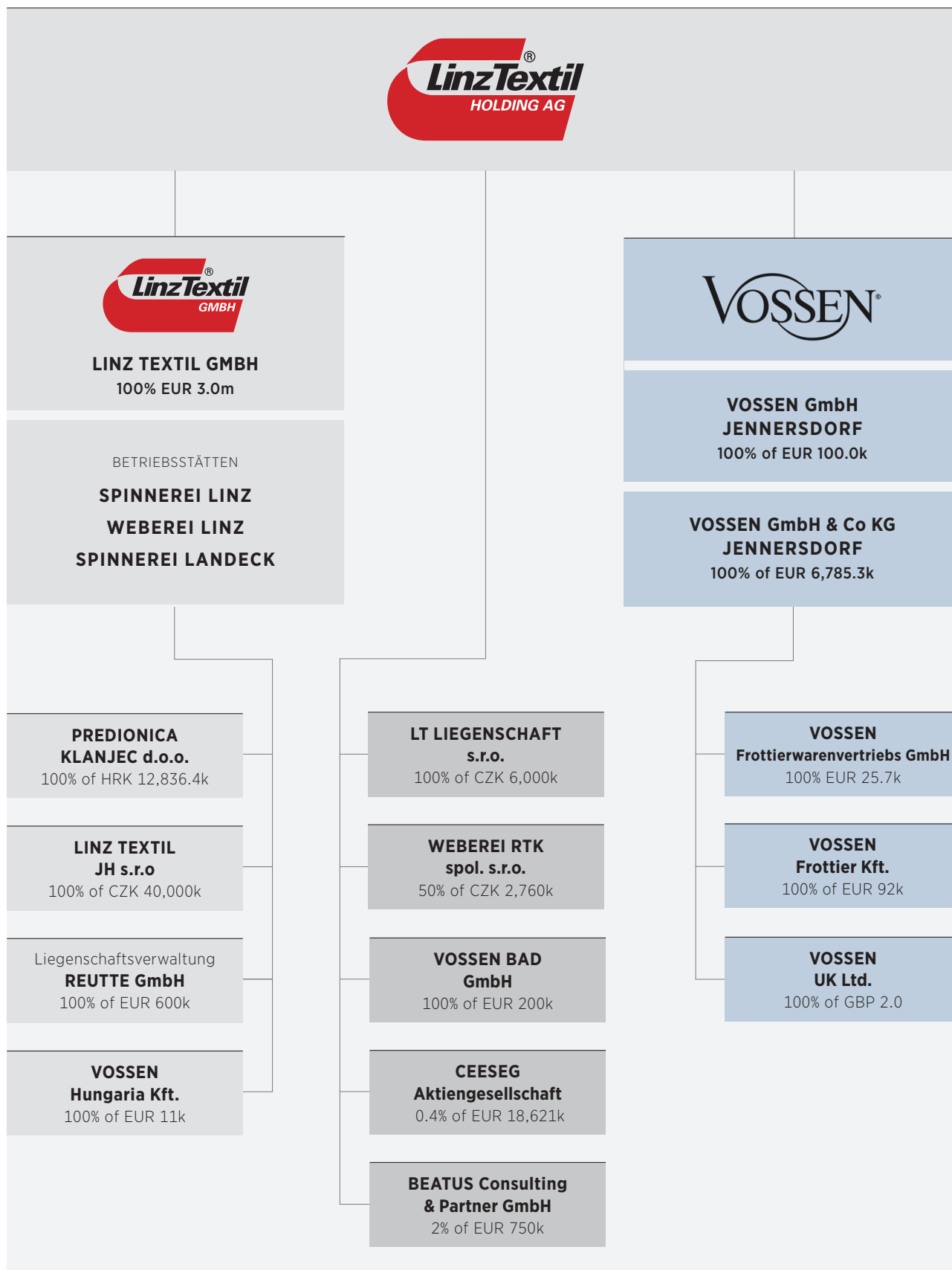


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Group structure

(as at 30 June 2016)



SHARE CAPITAL

Linz Textil Holding AG share capital amounts to EUR 6.0 million and consists of an unchanged total of 300,000 no-par shares. As at 30 June 2016, the price per share stood at EUR 319.00, as opposed to EUR 325.00 on the 31 December 2015 reporting date.

THE ECONOMIC ENVIRONMENT

The pace of global economic expansion continues to be slow. In particular, this is true of the developed economies, whereby the disappointing level of impetus reflects the weakening of growth impulses. Comprehensive and coordinated fiscal, monetary and structural policy measures will be required in order to achieve a return to the path of higher growth rates. Moreover, above all, ambitious structural reforms will be key to the attainment of sufficient growth levels, as it is highly unlikely that a prolongation of expansive monetary policy on the part of the central banks will furnish successful growth control.

Economic development in Austria during the first half of 2016 showed a comparatively satisfactory picture, albeit at a low level. Economic recovery was supported primarily by increased domestic demand emanating from a rise in private consumer spending. Conversely, foreign trade development was extremely hesitant and failed to generate any growth impulses worthy of note.

GROUP BUSINESS DEVELOPMENT

In the first half of 2016, as compared to the preceding year the Linz Textil Group demonstrated stable sales development. Consolidated sales amounted to EUR 59.8 million, as opposed to EUR 59.4 million in the same period of 2015.

The reported operating result (EBIT) amounting to EUR 1,577k was markedly higher than the value for the same period of the previous year (- EUR 738k) and this positive development can be traced largely to the comprehensive restructuring measures initiated in the preceding quarters. Improved cost efficiency in tandem with an increased orientation towards more profitable market segments greatly enhanced the earnings situation. During the comparative period, EBIT was still influenced negatively by one-off, non-operative special effects that emanated from the structural adjustment process. Among these special effects was the temporary shutdown of parts of production capacity at the Landeck spinning mill, which was necessitated by the major investment undertaken during the past year. Therefore, the reported increase in profits over the comparable period was mainly operative in character.

The sale of the Chinese subsidiary to a Chinese fibre manufacturer at the end of May 2016 means that this company has left the Linz Textil Group. In the course of deconsolidation foreign exchange gains, which in previous years were reported in the other result for the period, were reclassified in the profit and loss account and thus realised. The income derived from the sale of the Chinese subsidiary corresponds roughly with the decline in earnings from the securities portfolio, the size of which was reduced considerably during last year.

As at 30 June 2016, total assets stood at EUR 105,268k, which was some 4 per cent lower than the balance sheet date value as per 31 December 2015. This fall was due largely to the deconsolidation of the Chinese subsidiary from the Linz Textil Group's scope of consolidation. The equity ratio remained solid and on the reporting date amounted to 80.1 per cent (31.12.2015: 78.6%).

EMPLOYEES

At the end of the first half of 2016, the Linz Textil Group workforce totalled 566 (31.12.2015: 608). The main cause of this decline in employee numbers as compared to the balance sheet date of 31 December 2015 was the change in group structure following the sale of the Chinese subsidiary. Workforce numbers in the Austrian production centres remained generally stable.

INVESTMENTS

Following the comprehensive, major investment at the Landeck spinning mill undertaken during last year, in 2016 less intensive spending is required in the textile semis area. During the first half of 2016, a total of EUR 3.5 million was invested in the segment, as opposed to EUR 10.7 million in the first six months of 2015.

Investment in the first half of 2016 focused on the partial renewal of the machinery pool at the Linz weaving mill. This resulted in further improvements in productivity and a simultaneous enlargement of the product portfolio. The planned measures for the expansion of capacity at the Klanjec spinning mill were launched during the first half of 2016 and the corresponding investments actuated. This increase in production capacity will be concluded in the fourth quarter of 2016. Moreover, in the course of a further modification to the product portfolio, investments were made in the retrofitting of parts of the Landeck spinning mill machinery pool. In addition, the purchase of a new ring spinning machine resulted in a slight rise in production capacity and an adjustment to market requirements.

Investment in the finished textile product segment in additional shop-in-shop systems at sales partner premises was of the usual scale. Furthermore, targeted investments were made in the building infrastructure area.

OUTLOOK

The outlook for the second half of 2016 remains positive, but without the expectation that the operative result for the second six months will emulate the profit level achieved in the first half-year. The second half of 2016 will show slightly weaker EBIT in the textile semis segment and a somewhat more positive result for finished products.

Although not on a scale comparable to that seen in the two previous financial years, structural measures will continue to influence the outlook for the second half of 2016 and the 2017 financial year.

The following focal points are anticipated for the second half of 2016:

- A measured increase in capacity is planned for the Linz weaving mill.
- It is probable that the capacity of the viscose spinning mill will require a slight reduction.
- The structural enlargement of the Klanjec spinning mill will be concluded in the fourth quarter of 2016 and machinery will be installed in line with the targeted capacity.
- New sales opportunities will arise for the Landeck spinning mill owing to the announcement by a competitor that its production will shut down at the end of October 2016.
- Continuous and stable development is anticipated in the finished products segment.

The Linz Textil management derives satisfaction from the fact that not only has the major restructuring concept of 2014 and 2015 been implemented quickly, but also that the sought-after earnings targets have been achieved in full.

Consolidated balance sheet as at 30 June 2016

with comparative figures for the previous year as at 31.12.2015

		30.06.2016	31.12.2015
		EUR	EUR
ASSETS	A. Langfristige Vermögenswerte		
	I. Intangible assets	157,445	173,841
	II. Tangible assets	41,158,135	40,699,918
	III. Investment property	12,513,319	12,947,799
	IV. Financial assets (stocks)	7,505,234	8,245,204
	V. Other non-current financial assets	2,178,021	0
	VI. Deferred tax assets	97,494	110,729
		63,609,648	62,177,491
	B. Current assets		
	I. Inventories	22,331,222	25,555,779
	II. Trade receivables	10,762,915	9,315,757
	III. Other current financial assets	2,273,906	1,906,231
	IV. Tax receivables	142,049	139,081
	V. Other non-financial assets	2,225,826	555,009
	VI. Cash and cash equivalents	3,128,768	1,503,038
	40,864,686	38,974,895	
C. Assets held for sale	794,133	8,924,447	
	105,268,467	110,076,833	
EQUITY AND LIABILITIES	A. Equity		
	I. Share capital	6,000,000	6,000,000
	II. Capital reserves	777,599	777,599
	III. Revaluation of securities	337,769	372,954
	IV. Revaluation of net debt from a defined benefit pension plan	-5,135,797	-4,493,174
	V. Currency translation difference	-234,215	2,236,348
	VI. Retained earnings	82,585,387	81,590,332
		84,330,743	86,484,059
	B. Non-current liabilities		
	I. Provisions for social capital	7,384,114	6,646,600
	II. Deferred tax liabilities	1,490,221	1,725,252
		8,874,335	8,371,852
	C. Current liabilities		
	I. Trade payables	1,713,305	1,276,362
	II. Interest-bearing liabilities	3,002,960	5,956,765
III. Other current financial liabilities	3,763,676	2,901,718	
IV. Other current non-financial liabilities	2,620,105	1,562,845	
V. Other provisions	0	100,000	
VI. Taxes payable	963,343	936,194	
	12,063,389	12,733,884	
D. Liabilities in connection with assets held for sale	0	2,487,038	
	105,268,467	110,076,833	

Consolidated results for HY1 2016

with comparative figures for the previous year in thousands of euros (EUR k)

		01.01. - 30.06.2016 EUR	01.01. - 30.06.2015 TEUR
1.	Sales revenues	59,811,977	59,408
2.	Change in finished goods and work in progress	-3,137,523	-1,496
3.	Other operating income	3,264,692	4,235
4.	Operating result	59,939,146	62,148
5.	Cost of materials and other services received	-35,199,032	-37,167
6.	Personnel expenses	-11,667,063	-12,463
7.	Depreciation and amortisation on intangible and tangible assets	-4,214,106	-4,016
8.	Other operating expenses	-7,281,809	-9,240
9.	Earnings before interest and taxes (EBIT)	1,577,136	-738
10.	Income from other investments	140,000	35
11.	Income from interest	137,791	161
12.	Interest expenses	-144,665	-314
13.	Other financial income	125,694	1,916
14.	Currency gains from deconsolidation	2,483,219	0
15.	Other financial expenses	0	-132
16.	Financial result	2,742,039	1,665
17.	Earnings before taxes (EBT)	4,319,175	928
18.	Income tax expense	-624,118	-413
19.	Net profit/loss for the period	3,695,057	514
Amounts that will be unrecognised in future periods			
20.	Actuarial gains and losses	-856,831	0
21.	Income tax	214,208	0
Amounts that may be recognised in future periods			
22.	Currency translation differences	-2,470,563	325
23.	Available-for-sale financial instruments		
	Current value adjustment	73,129	375
	Reclassification as gain/loss for the period	-120,044	-884
24.	Income tax	11,729	127
25.	Other comprehensive income	-3,148,372	-57
26.	Comprehensive income after tax	546,685	458
Net profit for the period allocable to:			
	Parent company shareholders	3,695,057	514
	Minority interests	0	0
		3,695,057	514
Other comprehensive income for the period allocable to:			
	Parent company shareholders	-3,148,372	-57
	Minority interests	0	0
		-3,148,372	-57
Comprehensive income after tax allocable to:			
	Parent company shareholders	546,685	458
	Minority interests	0	0
		546,685	458
Earnings per share		12.32	1.71

The diluted result per share corresponds with the undiluted result per share.

Consolidated capital flow statement for HY1 2016

with comparative figures for the previous year

	01.01. - 30.06.2016 TEUR	01.01. - 30.06.2015 TEUR
Consolidated net result	3,695	514
Depreciation and amortisation on intangible and tangible assets	4,214	4,016
Change in the provision for social capital	-119	-508
Change in the provisions for deferred tax liabilities and deferred tax assets	7	-68
Gains/losses on non-current asset sales	-565	-1,668
Change in inventories	3,929	-1,024
Change in trade receivables	163	-1,263
Change in tax receivables and other assets	-827	-637
Change in trade payables	224	4,694
Change in current provisions	-100	-127
Change in taxes payable	27	376
Change in other current liabilities	-802	3,458
Currency translation and other non-cash differences	-2,539	-173
Cash flow from operating activities	7,307	7,590
Prepayments from the disposal of tangible and intangible assets	796	529
Net inflow from the disposal of subsidiaries	2,832	0
Prepayments from the disposal of financial assets	720	5,985
Payments for investments in tangible and intangible assets	-4,765	-8,537
Net cash flow from investing activities	-417	-2,023
Non-current, financial loan borrowings	0	5,290
Repayment of current financial loans	-2,954	0
Dividends paid	-2,700	-12,600
Cash flow from financing activities	-5,654	-7,310
Change in cash and cash equivalents	1,236	-1,743
Cash and cash equivalents at the beginning of the period	1,893	5,155
Cash and cash equivalents at the end of the period	3,129	3,412
Interest paid	145	94
Taxes paid	560	380
Interest received	138	565
Dividends received	192	337

Die bezahlten Zinsen und Steuern sowie die erhaltenen Zinsen und Dividenden sind im Cash Flow aus betrieblicher Tätigkeit erfasst.

Consolidated equity statement for HY1 2016

	Share capital EUR	Capital reserves EUR	Security revaluations EUR	Net debt revaluation EUR	Currency translation differences EUR	Retained earnings EUR	Total EUR
As at 1.1.2015	6,000,000	777,599	2,357,477	-4,339,582	2,043,871	90,935,968	97,775,333
Dividends paid	0	0	0	0	0	-12,600,000	-12,600,000
Profit/loss	0	0	0	0	0	3,254,363	3,254,363
Other result	0	0	-1,984,523	-153,592	192,477	0	-1,945,637
Comprehensive income for the period	0	0	-1,984,523	-153,592	192,477	3,254,363	1,308,726
As 31.12.2015	6,000,000	777,599	372,954	-4,493,174	2,236,348	81,590,332	86,484,059
Dividends paid	0	0	0	0	0	-2,700,000	-2,700,000
Profit/loss	0	0	0	0	0	3,695,057	3,695,057
Other result	0	0	-35,185	-642,623	-2,470,563	0	-3,148,372
Comprehensive income for the period	0	0	-35,185	-642,623	-2,470,563	3,695,057	546,685
As 30.06.2016	6,000,000	777,599	337,769	-5,135,797	-234,215	82,585,387	84,330,743

Selected explanatory notes

GENERAL INFORMATION

These abridged Linz Textil Group consolidated financial statements for the first half-year 2016 were prepared in accordance with the International Financial Reporting Standards for interim financial reporting (IAS 34) as applied in the European Union.

In line with IAS 34, the abridged interim report does not contain all the obligatory information and data required for annual financial statements and should be read in combination with the consolidated financial statements of the Linz Textil Group from 31 December 31 2015.

The interim report employs the same accounting and valuation methods utilised in the last annual financial statements. In the case of the addition of rounded amounts and percentages, the use of automatic calculating devices can result in rounding-related differences.

During the preparation of the interim financial statements, to a certain extent estimates had to be undertaken and assumptions made, which influence the reported assets, financial and earnings situation.

This Linz Textil Group report has neither been audited nor subjected to an audit examination.

SEASONAL AND ECONOMIC INFLUENCES

The effects of seasonal fluctuations are limited to the finished textile products segment and are not of material relevance to the Group as a whole.

CHANGE IN CORPORATE STRUCTURE

The closing of the sale of the previously fully consolidated subsidiary, Linz (Nanjing) Viscose Yarn Co. Ltd., to the Hong Kong-based company, Sateri China Holdings Limited, took place on 31 May 2016. The sale is to be completed in two stages, whereby the buyer will initially take over 70 per cent of the shares in Linz (Nanjing) Viscose Yarn Co. Ltd., as well as parts of the loan receivables due from the company to the Linz Textil Group. Following the expiry of a period of 18 months, both contractual partners will be entitled to exercise agreed option rights (mutual put and call options), whereby as a result of this contractual arrangement, the transfer of the outstanding 30 per cent shareholding and the remaining loan receivables will take place.

Owing to the surrender of control, Linz (Nanjing) Viscose Yarn Co. Ltd. was no longer included in the interim group financial statements as at 30 June 2016. As far as the option-related shares are concerned, due to the contractual arrangement with mutual option rights, it may be assumed that an immediate transfer of the business property will take place with the result that Linz (Nanjing) Viscose Yarn Co. Ltd. will also no longer constitute an associated company and that a complete purchase on the part of the buyer will form a basis for accounting.

No other changes took place with regard to the scope of consolidation.

DIVIDEND PAYMENT

At the 138th ordinary general meeting of shareholders held on 11 May 2016, a dividend of EUR 2,700,000.00 based on a total of 300,000 shares was agreed. Accordingly, a gross dividend of EUR 9.00 per no-par share was paid out on 18 May 2016.

SEGMENT REPORT BY BUSINESS AREA FOR HY1 2016

Values in EUR k	Textile semis	Finished textile products	Others	Group adjustment	Total
External sales	46,889	12,923	0	0	59,812
Intra-group sales	150	0	0	-150	0
Total sales revenues	47,039	12,923	0	-150	59,812
Financial result	2,423	-100	512	-93	2,742
Earnings before taxes (EBT)	3,134	312	986	-113	4,319
Segment assets	63,546	20,411	38,984	-17,673	105,268
Segment liabilities	21,358	13,260	4,302	-17,982	20,938
Investments in intangible and tangible assets	3,542	782	441	0	4,765
Scheduled depreciation and amortisation	3,109	928	180	-3	4,214

INFORMATION BY REGIONAL SEGMENT FOR HY1 2016

Values in EUR k	Austria	Germany	EU excl. Austria and Germany	Others	Total
External sales	10,442	17,804	16,635	14,931	59,812

Values in EUR k	Austria	EU excl. Austria	Others	Group adjustment	Total
Non-current segment assets (excluding tax deferrals)	57,297	6,975	0	-760	63,512

SEGMENT REPORT BY BUSINESS AREA FOR HY1 2015

Values in EUR k	Textile semis	Finished textile products	Others	Group adjustment	Total
External sales	45,002	14,406	0	0	59,408
Intra-group sales	267	0	0	-267	0
Total sales revenues	45,269	14,406	0	-267	59,408
Financial result	323	-112	2,084	-630	1,665
Earnings before taxes (EBT)	-630	778	1,382	-602	928
Segment assets	69,125	21,578	45,157	-14,810	121,050
Segment liabilities	29,228	15,278	6,042	-15,131	35,417
Investments in intangible and tangible assets	10,694	442	27	0	11,163
Scheduled depreciation and amortisation	3,016	813	190	-3	4,016

INFORMATION BY REGIONAL SEGMENT FOR HY1 2015

Values in EUR k	Austria	Germany	EU excl. Austria and Germany	Others	Total
External sales	9,360	16,636	19,369	14,043	59,408

Values in EUR k	Austria	EU excl. Austria	Others	Group adjustment	Total
Non-current segment assets (excluding tax deferrals)	63,472	7,225	5,538	-583	75,652

RETAINED FOR SALE ASSETS AND LIABILITIES IN CONNECTION WITH ASSETS RETAINED FOR SALE

Linz (Nanjing) Viscose Yarn Co. Ltd. was a fully consolidated subsidiary in the semis segment and at the end of May 2016, the Linz Textil Group sold its holding in the company. This resulted in a loss of control by the Linz Textil Group and deconsolidation.

The following assets and liabilities were deconsolidated as a result of the loss of control:

	Linz (Nanjing) Viscose Yarn Co. Ltd. 31 May 2016 EUR
Non-current assets	
Fixed assets	5,013,379
Current assets	
Inventories	905,808
Trade accounts receivable	437,168
Other assets	388,001
Cash and cash equivalents	168,456
Total assets	6,912,812
Current liabilities	
Trade accounts payable	866,310
Other liabilities	124,540
Total liabilities	990,850
NET ASSETS	5,921,962

An amount of EUR 62k is reported as the sale result under the item "Other operating expenses". This amount derives from the difference between the sum received from the shares sale, including the loan receivables assumed by the purchaser, and the transferred net assets.

Taking into account the reclassification of the currency translation differences amounting to EUR 2,483k, which were previously recognised as equity, the deconsolidation of the Chinese subsidiary from the scope of equity leads to a positive result of EUR 2,421k.

The net cash inflow from the sale is reported in the cash flow for investment activities and is comprised of the following:

	Net cash inflow from the subsidiary sale EUR
Payment in cash and cash equivalents	3,000,000
Less sale of cash and cash equivalents	-168,456
Net cash inflow	2,831,544

The not yet due parts of the purchase price are reported under the other current and non-current assets.

The carrying values as at 30 June 2016 of assets declared as assets held for sale were as follows:

	Company property Reutte 30 June 2016 EUR	Company property Klarenbrunn 30 June 2016 EUR
Non-current assets		
Fixed assets	304,401	489,732

FINANCIAL INSTRUMENTS

The carrying value on the reporting date of the financial instruments reported at amortised cost is roughly equivalent to fair value.

In line with IFRS 7, valuation levels are given for the financial instruments reported systematically at fair value. The following list analyses the instruments reported at fair value according to the type of valuation method. Three valuation method levels are defined:

Level 1: Price notation for identical assets or debts in an active market (without adjustments)

Level 2: Inputs for assets or debts that are not included in Level 1, but can be directly or indirectly observed (e.g. extrapolated from prices)

Level 3: Inputs for assets or debts that do not represent observable market data

30.06.2016	Fair value			
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k	Total EUR k
Financial assets				
Financial assets available-for-sale	6,766	200	0	6,966
Derivative financial assets	0	0	0	0
	6,766	200	0	6,966
Financial liabilities				
Derivative finanzielle Verbindlichkeiten	0	-7	0	-7
	0	-7	0	-7
Total	6,766	194	0	6,959

30.06.2015	Fair value			
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k	Total EUR k
Financial assets				
Financial assets available-for-sale	15,759	425	0	16,184
Derivative financial assets	0	0	0	0
	15,759	425	0	16,184
Financial liabilities				
Derivative finanzielle Verbindlichkeiten	0	-221	0	-221
	0	-221	0	-221
Total	15,759	204	0	15,963

There were no transfers between levels during the 2016 and 2015 financial years.

Level 1 valuations relate to the fair value of stock exchange listed securities, which correspond with market prices.

Level 2 valuations are undertaken when no stock market prices are available, using standard market methods and on the basis of market parameters related specifically to the instruments.

BUSINESS RELATIONSHIPS TO RELATED PERSONAGES AND COMPANIES

Transactions with related parties and companies are conducted according to standard conditions.

The LeitnerLeitner GmbH auditing and tax consultancy practice, of which the chairman of the Supervisory Board, Reinhard Leitner, is the managing shareholder and CEO, provides the Linz Textil Group with consultative services. During the first half of 2016 the fees paid to the company amounted to EUR 32k net (2015: EUR 15k). As at 30 June 2016 there were no outstanding debts to LeitnerLeitner GmbH.

A limited exchange of services takes place with companies with which the Managing Board has a relationship. In the first half of 2016, expenses of EUR 13k (2015: EUR 13k) derived for the Linz Textil Group from these relationships. As at 30 June 2016 there were no outstanding receivables or payables relating to these services (2014: EUR 0k).

INCOME TAXES

During the past year, the income tax expense took into account revaluations of capitalised deferred taxes on losses carried forward of EUR 93k.

EVENTS AFTER THE BALANCE SHEET DATE

No events demanding mandatory reporting occurred between the end of the interim reporting period as at 30 June 2015 and the release for publication on 26 August 2016.

Declaration of the Managing Board

We confirm that to the best of our knowledge, the abridged, interim consolidated financial statements as at 30 June 2016, which were prepared in accordance with the main accounting standards, present a true and fair picture of the Group's assets, finances and earnings and that the Group's half-year management report as at 30 June 2016, offers a true and fair picture of the Group's assets, finances and earnings in relation to the important events of the first six months of the 2016 financial year and their effects on the abridged financial statements as at 30 June 2016 with regard to the risks and uncertainties of the remaining six months of the 2016 financial year, as well as the main at arm's length business transactions with related companies and personages subject to mandatory reporting.

Linz on 26 August 2016



Dr. Dionys L. Lehner
Chairman

The Managing Board



Ing. Manfred Kern
Member of the Board



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