

LETTER TO SHAREHOLDERS

Lenzing Group
First Quarter 2007



Dear Shareholder,

The development of the fiber business environment in the first quarter of 2007 was positive. The robust global economy which was carried by the continuing boom in China and India and the positive development in Europe provided good demand for textile fibers and nonwovens. The increase in raw material prices slowed down and prices began to stabilize, although at a high level. The favorable economic conditions are also reflected in the business development of the non-fiber business sectors of the Lenzing Group, especially Lenzing Plastics.

Lenzing Group

**Expansion
continues**

The economic development of the Lenzing Group in the first quarter of 2007 was characterized by strong organic growth of the cellulose fiber core business, important acquisitions by Lenzing Plastics and by the very good development of business operations in all segments.

Consolidated sales of the Group rose by 13.8% to EUR 297.2 mill. (2006: EUR 261.2 mill.). The increase in sales was mainly the result of further production increases in core business fibers. The increase in material costs of 22.6% over the first quarter of 2006 reflects the sustained high level of raw material prices.

EBIT for the quarter improved by 42.5% to a new record level of EUR 32.5 mill. (2006: EUR 22.8 mill.). The financial income and expense improved to minus EUR 2.2 mill. (2006: minus EUR 3.2 mill.). Net income increased by 62.4% to EUR 23.0 mill. (2006: EUR 14.1 mill.). This corresponds to earnings per share of EUR 5.78 for the quarter (2006: EUR 3.31).

The EBIT margin was 11.0% (2006: 8.8%) and the EBITDA margin 16.5% (2006: 14.8%).

The quarterly balance sheet of the Lenzing Group as of 31 March 2007 shows equity of EUR 537.1 mill. (31 December 2006: EUR 516.0 mill.). Total assets increased to more than EUR 1.11 bill., resulting in an adjusted* equity ratio of 50.7% (end of 2006: 51.1%). The Group's dynamic growth, its high investment activity and its acquisition strategy are reflected by the cash flow from investing activities of minus EUR 61.2 mill. (2006: minus EUR 13.7 mill.).

The staff of the Lenzing Group at the end of the quarter was 5,288 (31 December 2006: 5,044). The increase is mainly due to the start-up of production at the new viscose fiber production plant in Nanjing (China). The inclusion of the Hahl Group staff as of 1 April 2007 will raise the current figure by 240.

* including investment grants less proportionate deferred taxes

Segment Fibers

Strong demand for viscose fibers

Cotton prices started to move up again after their slight decline at the turn of the year, with reports of US stock remaining at a high level. Global polyester fiber prices on the whole remained unchanged across the world's regions. On the raw material side, pulp prices (NBSK index) continued their rise.

The strong demand for viscose fibers benefited Business Unit Textile Fibers as well as Business Unit Nonwoven Fibers. Lenzing used the favorable market development to further improve its product mix in favor of high-quality fiber specialities and to implement price increases. New production records were matched by increased shipping volume. All production plants are running at full capacity. Orders are booked for weeks in advance.

Production start-up at the new plant in Nanjing (China)

Production at the new viscose fiber production plant in Nanjing (China) started in the beginning of the second quarter. The plant is the second viscose fiber production site of the Lenzing Group in Asia, after Indonesia, and the sixth fiber production site globally.

With this step Lenzing expands its leadership as the world's biggest producer of cellulose fibers to a nominal capacity of 560,000 tons per year. The new plant's nominal capacity is 60,000 tons of viscose fibers and the total investment for the current phase is EUR 65 mill. Lenzing Nanjing is a state-of-the-art production site: it complies with the high Western European environmental standards of the Lenzing Group. The key technology was provided by Lenzing Technik and plant construction was completed in less than two years. It will be operated by a staff of 540.

Business Units Textile Fibers and Nonwoven Fibers

Cooperation with producers of international brands was broadened in textiles, especially in sports and leisure wear, lingerie, but also in home textiles. Sales and results of Business Unit Textile Fibers reached new record levels in the first quarter.

The good development of the market for nonwovens continued undampened as well. Results were improved by the shift from fibers for commodity products to high-quality applications, increasing average earnings in the first quarter.

Segments Paper, Plastics and Engineering

Segment Paper

The paper market environment has improved recently. Demand for envelope paper has been satisfactory for the first time in many quarters due to factory closures by competitors. Demand for recycled paper has stabilized. Results from operation remain unsatisfactory.

Segment Plastics

Lenzing Plastics placed a new emphasis on growth with the acquisition of the German Hahl Group GmbH and with its entry into the carbon fiber business.

Hahl Group GmbH is a major European producer of cut plastic filaments for the production of synthetic bristles, brushes and fabrics. In 2006 the company realized sales of about EUR 35 mill. with a staff of 240. The production site in Germany is complemented by a site in Plana (Czech Republic) and a sales office in Great Britain. The purchase price of the Hahl Group has already been recognized in the balance sheet as of 31 March 2007 under financial assets. The date of first consolidation is 1 April 2007.

Lenzing Plastics concluded comprehensive agreements with SGL Carbon AG and Kelheim Fibres GmbH (both Germany) for the production of carbon fibers. The joint venture of the three partners is called European Precursor GmbH and will start operations in 2007. Investment of up to EUR 50 mill. is scheduled for the expansion of capacity to produce carbon fiber and precursor material. The activities in the new carbon fibers business sector are expected to provide a double-digit million euro increase in sales of Plastics.

The development of business operations in Plastics in the first quarter was satisfactory, mainly due to the strong demand for products for the construction industry, the cable industry and for MOPP products.

Segment Engineering

Segment Engineering was in line with the good results of the previous quarters. Excellent order bookings and the present level of orders on hand are the basis of the current good development of all sectors of this segment.

Coming events

The 63rd regular shareholders' meeting of Lenzing AG will take place on 15 June at 11 am at the Lenzing Kulturzentrum. We ask all attending shareholders to observe the relevant depositing requirements.

The management board will propose an increased dividend of EUR 10.00 (2006: EUR 8.00). This proposal reflects the very good performance in 2006. The date for dividend payment has been set for 25 June 2007 and the ex-dividend day for 19 June 2007.

Outlook

The positive market environment is expected to continue in the second quarter of 2007. Asian demand is undampened and the global optimistic view of economic conditions is unchanged. Signs of an economic downturn in the USA are not expected to have any lasting negative impact on the business development of the Lenzing Group. A discussion on undue subsidies for the Chinese textile industry might start in the USA in the course of the year, which would cause a certain amount of uncertainty in the market. Similarly, the continuing weakness of the US dollar towards the euro and high cotton stock could become relevant factors for the development of the industry.

Lenzing will continue to grow in 2007 as well. A basic agreement on the construction of a new viscose fiber production plant in India was signed at the beginning of the second quarter. Production capacity and production flexibility will be consistently expanded at the Lenzing site.

We are optimistic we will achieve an annual result in line with last year's, provided the current favorable economic conditions persist.

Lenzing, May 2007

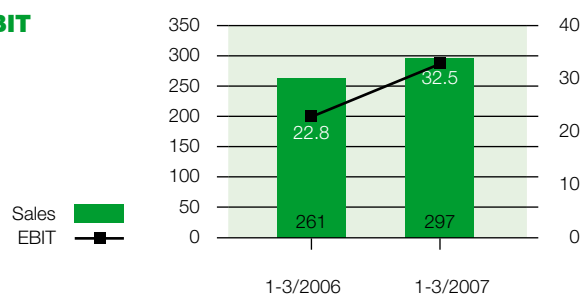
The Management Board

Income Statement

According to IFRS	1-3/2007	1-3/2006
	EUR mill.	EUR mill.
Sales	297.2	261.2
Changes in inventories and work performed by the Group and capitalized	0.9	(2.5)
Other operating income	2.5	4.6
Cost of material and purchased services	(167.8)	(136.9)
Personnel expenses	(54.8)	(53.6)
Amortization of intangible assets and depreciation of property, plant and equipment	(17.4)	(16.8)
Other operating expenses	(28.1)	(33.3)
Income from operations (EBIT)	32.5	22.8
Financial income and expenses	(2.2)	(3.2)
Income before taxes (EBT)	30.3	19.6
Income taxes	(7.3)	(5.5)
Net income	23.0	14.1
Attributable to:		
Shareholders of Lenzing AG	21.3	12.1
Minority shareholders	1.7	2.0
	EUR	EUR
Earnings per share	5.78	3.31

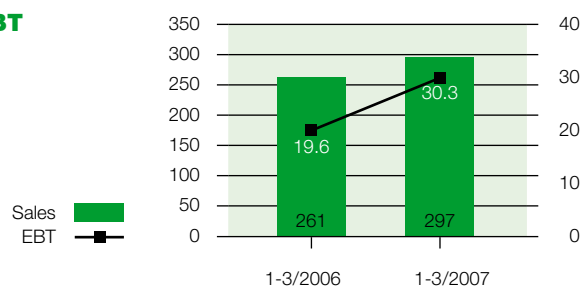
Sales compared to EBIT

EUR mill.



Sales compared to EBT

EUR mill.



Balance Sheet

According to IFRS

Assets	31/03/2007		31/12/2006	
	EUR mill.	in %	EUR mill.	in %
Intangible assets and property, plant and equipment	652.9	58.7	636.9	60.0
Financial assets	45.0	4.1	27.6	2.6
Other non-current assets	4.7	0.4	4.4	0.4
Operating cash flow	702.6	63.2	668.9	63.0
Inventories	138.0	12.4	123.9	11.7
Receivables	189.5	17.1	171.9	16.2
Investments, cash and cash equivalents	81.6	7.3	97.0	9.1
Current assets	409.1	36.8	392.8	37.0
Total assets	1,111.7	100.0	1,061.7	100.0

Equity and liabilities	31/03/2007		31/12/2006	
	EUR mill.	in %	EUR mill.	in %
Equity	537.1	48.3	516.0	48.6
Government grants	33.1	3.0	34.0	3.2
Bank and other loans	212.6	19.1	214.5	20.2
Provisions	97.1	8.7	90.5	8.5
Liabilities	3.9	0.4	3.9	0.4
Non-current liabilities	313.6	28.2	308.9	29.1
Bank and other loans and overdrafts	24.0	2.2	28.4	2.7
Provisions	81.1	7.3	75.6	7.1
Liabilities	122.8	11.0	98.8	9.3
Current liabilities	227.9	20.5	202.8	19.1
Total equity and liabilities	1,111.7	100.0	1,061.7	100.0

Cash Flow Statement

According to IFRS	1-3/2007	1-3/2006
	EUR mill.	EUR mill.
Gross cash flow	46.6	29.3
Change in working capital	6.4	9.5
Operating cash flow	53.0	38.8
- Acquisition of non-current assets	(61.2)	(17.1)
+ Proceeds from the disposal / redemption of non-current assets	0.0	3.4
Net cash used in investing activities	(61.2)	(13.7)
+ Payments of other shareholders	0.0	1.5
- Dividends paid to shareholders	(1.4)	0.0
+/- Receipts from financing activities and redemption of loans and overdrafts	(5.6)	(22.4)
Net cash used in (-) / provided by (+) financing activities	(7.0)	(20.9)
Change in cash and cash equivalents	(15.2)	4.2
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)	(0.2)
Cash and cash equivalents at the end of the reporting period	73.4	81.1

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