



Letter to Shareholders

FIRST QUARTER 2008 Lenzing Group

Letter to Shareholders

First Quarter 2008

Dear Shareholder,

The very good business development of the Lenzing Group in 2007 continued into the first quarter of 2008, although there were first signs of weakening demand over the next quarters in segment Fibers. The development of segments Plastics and Engineering was altogether satisfactory. The majority of segment Paper was sold as of 4 March.

Lenzing Group

The Lenzing Group successfully pursued the expansion of sales and results. Consolidated sales rose by 23.3% from EUR 281.3 mill. to EUR 346.8 mill. as a result of almost full capacity utilization at new viscose fiber plant in Nanjing (China), a further increase in fiber prices and the full inclusion of the companies acquired by segment Plastics in 2007. Cost of material and purchased services increased by 26.2% due to higher energy and raw material prices, but largely in line with the increase in sales, from EUR 156.4 mill. to EUR 197.3 mill. First quarter EBIT grew by 27.6% to EUR 42.1 mill. (2007: EUR 33.0 mill.), EBT improved from EUR 30.8 mill. to EUR 38.5 mill. Period net earnings increased by 24.3% to EUR 28.6 mill. (2007: EUR 23.0 mill.). Due to a higher tax charge of EUR 10.2 mill. (2007: EUR 7.5 mill.) this increase is slightly less than the increase in EBIT. Quarterly earnings per share came to EUR 7.22 (2007: EUR 5.78).

The first quarter EBIT margin was 12.1% (2007: 11.7%), the EBITDA margin 17.2% (2007: 17.5%). The margins largely maintained their high levels, despite significantly increased raw material prices.

The balance sheet of the Lenzing Group as at 31 March 2008 shows property, plant and equipment and intangible assets at EUR 781.2 mill. (31 December 2007: EUR 784.7 mill.). Equity rose from EUR 562.2 mill. at the end of 2007 to EUR 576.0 mill. This corresponds to an adjusted equity ratio of 45.5% of the balance sheet total (end of 2007: 44.8%). Long-term liabilities dropped from EUR 416.6 mill. (year-end 2007) to currently EUR 406.4 mill. despite high investment activity.

Expenditure for property, plant and equipment and intangible assets came to EUR 28.3 mill. (2007: EUR 34.7 mill.). The Group focused on expanding the Lenzing site, mainly by investing in the energy sector and renovation work, as well as on preliminary work for renovating and expanding the SPV (Indonesia) and the Heiligenkreuz (Austria) sites.

As at 31 March 2008 the Lenzing Group employed 5,925 people (31 December 2007: 6,043). The decrease reflects the sale of segment Paper.

¹⁾ Equity including government grants less proportionate deferred taxes

Segment Fibers

The strong demand for fibers continued throughout the first quarter. The textile as well as the nonwovens industry benefited from good demand in Europe and in the emerging markets where rising prosperity increasingly drives private consumption. Cotton prices continued to rise to 81 US cents per pound in March 2008. Polyester fiber prices in Asia increased slightly and the prices for pulp for the viscose fiber industry remained at their high levels.

Business Unit Textile Fibers and Nonwoven Fibers

Lenzing Group fiber production ran at full capacity at all sites.

The development of Business Unit Textile Fibers was very gratifying, due to the current price level and high sales volumes. Lenzing presented MicroModal® AIR, a lingerie fiber innovation. The new micro-fiber has all the positive properties of Lenzing MicroModal® yet with even greater fineness and softness to the touch. The concept Botanic Fibers has become the new marketing focus for the current business year. Lenzing highlights parallels between the functionality of Lenzing Fibers and the botanic principles of nature.

The development of Business Unit Nonwoven Fibers was characterized by continuing strong demand and a gratifying development of prices. Capacity utilization of the nonwovens industry in Europe and in the USA continued to be high, with no signs of business development levelling off.

Segments Plastics, Engineering and Paper

The business development of segment Plastics was satisfactory. Seasonal weakening of demand for construction materials is to be seen alongside the good development of MOPP* films and filaments. Further price increases due to high raw material prices in individual business fields will become necessary.

Lenzing Plastics GmbH acquired the German special fiber producer Dolan GmbH in Kelheim as a full subsidiary with effect from 31 December 2007. The company employs a staff of 100 and recently generated annual sales of EUR 25 mill. Dolan GmbH had been a full subsidiary of Kelheim Fibres GmbH, a fiber producer in which Lenzing holds an indirect share of 35%.

Dolan GmbH produces a variety of applications based on acrylic fibers for outdoor products, in particular high-quality textile home architecture (sunshades, smaller sun sails, cover fabrics for outdoor furniture, soft tops for convertibles, boat decks). Dolan fibers are sunfast, weatherproof and resistant to wear and decomposition. Dolanit is the brand name of the company's fiber for technical applications (waste gas filtration, friction pad reinforcements and construction materials).

Segment Engineering continued to enjoy strong order bookings.

As of 4 March 2008 60% of the shares in Lenzing Papier GmbH (segment Paper) and the control of the business were transferred to a group of investors around main investor Ernst Brunbauer (Gmunden, Austria). Lenzing AG will keep the remaining 40%. The new majority shareholder will operate Lenzing Paper at its site, Lenzing (Austria), as an independent business.

²⁾ Monoaxially oriented polypropylene

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Outlook

The global economy is slowing down due to the unfavorable development in the USA. There are no exact figures on the extent of the decline available yet. The dampening will affect Europe's real economy as well as the emerging markets' export business to European and North American countries which has been very strong so far. As domestic demand in Asia and South America continues to be strong, no direct impact of the joyless US developments on these regions is to be expected in the foreseeable future.

The Lenzing Group expects the fiber boom of the past years to come to an end. The textile pipeline is beginning to fill up, and the stock levels of the textile chain are rising. This has already led to a definite weakening of prices for standard fibers in Europe and Asia in the first weeks of the second quarter. Moreover, new Asian fiber production capacity will begin to supply the market in the course

of the current business year and lead to excess cellulose fiber capacity. The weak US dollar is another burden. The pulp supply situation, however, is expected to ease up, as new production capacity will contribute to the market.

In core business fibers Lenzing will counter these emerging difficulties with a high-quality product portfolio with less susceptibility to cyclical fluctuations. The development of Plastics and Engineering in the current business year is expected to be fairly stable.

Lenzing, May 2008

The Management Board

Income Statement

According to IFRS	1-3/2008	1-3/2007
	EUR mill.	EUR mill.
Sales	346.8	281.3
Changes in inventories and work performed by the Group and capitalized	16.2	1.6
Other operating income	7.8	2.5
Cost of material and purchased services	(197.3)	(156.4)
Personnel expenses	(61.4)	(52.8)
Amortization of intangible assets and depreciation of property, plant and equipment	(18.3)	(17.0)
Other operating expenses	(51.7)	(26.2)
Income from operations (EBIT)	42.1	33.0
Financial income and expenses	(3.6)	(2.2)
Income before taxes (EBT)	38.5	30.8
Income taxes	(10.2)	(7.5)
Profit after taxes from continuing operations	28.3	23.3
Result from discontinued operations	0.3	(0.3)
Net income	28.6	23.0
Attributable to:		
Shareholders of Lenzing AG	26.5	21.3
Minority shareholders	2.1	1.7
	EUR	EUR
Earnings per share	7.22	5.78

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Balance Sheet

According to IFRS	31/03/2008		31/12/2007	
	EUR mill.	in %	EUR mill.	in %
Assets				
Intangible assets and property, plant and equipment	781.2	58.9	784.7	60.0
Financial assets	27.8	2.1	24.9	1.9
Other non-current assets	3.8	0.3	3.6	0.2
Non-current assets	812.8	61.3	813.2	62.1
Inventories	189.1	14.2	164.0	12.5
Receivables	206.6	15.6	185.3	14.2
Investments, cash and cash equivalents	118.5	8.9	119.1	9.1
Assets classified as held for sale	-	-	27.0	2.1
Current assets	514.2	38.7	495.4	37.9
	1,327.0	100.0	1,308.6	100.0
Equity And Liabilities				
Equity	576.0	43.4	562.2	43.0
Government grants	33.9	2.6	30.5	2.3
Bank loans and other loans	293.8	22.1	297.5	22.7
Provisions	109.6	8.3	116.1	8.9
Liabilities	3.0	0.2	3.0	0.2
Non-current liabilities	406.4	30.6	416.6	31.8
Bank loans and and other loans	44.2	3.3	30.0	2.3
Provisions	133.7	10.1	100.7	7.7
Liabilities	132.8	10.0	148.3	11.3
Liabilities associated with the assets classified as held for sale	-	-	20.3	1.6
Current liabilities	310.7	23.4	299.3	22.9
	1,327.0	100.0	1,308.6	100.0

Cash Flow Statement

According to IFRS	1-3/2008	1-3/2007
	EUR mill.	EUR mill.
Gross cash flow	40.1	46.9
Change in working capital	(25.9)	6.3
Net cash used in discontinued operations	(0.5)	(0.2)
Operating cash flow	13.7	53.0
- Acquisition of non-current assets	(28.4)	(61.1)
+ Proceeds from the disposal / repayment of non-current assets	0.5	0.0
+ Proceeds from the disposal of securities held as current assets	8.1	0.0
Proceeds from the disposal of / Net cash used in discontinued operations	2.5	(0.1)
Net cash used in investing activities	(17.3)	(61.2)
+ Payments of other shareholders	1.0	0.0
- Dividends paid to shareholders	(0.3)	(1.4)
+/- Receipts from financing activities and repayment of loans	12.8	(5.6)
Net cash used in discontinued operations	0.0	(0.1)
Net cash provided by (+) / used in (-) financing activities	13.5	(7.1)
Change in cash and cash equivalents	9.9	(15.3)
Cash and cash equivalents at the beginning of the year	111.4	88.8
Currency translation adjustment relating to cash and cash equivalents	(2.8)	(0.1)
Cash and cash equivalents at the end of the reporting period	118.5	73.4

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Lenzing Aktiengesellschaft
4860 Lenzing, Austria
www.lenzing.com

Edited by

Lenzing Aktiengesellschaft
Corporate Communications
Angelika Guldt
Phone: +43 (0)7672 701-2696
Fax: +43 (0)7672 918-2696
E-mail: a.guldt@lenzing.com

Hohegger Financials, Vienna

Idea and Design by

ElectricArts GmbH

Printed by

kb-offset, Regau

Photography by

Michael Haegele

