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Smart products for great customers

LENZING
LEADING FIBER INNOVATION

Letter to Shareholders

First Quarter 2010

Dear Shareholder,

The Lenzing Group smoothly extended the very good business development of the last quarter of 2009 into the first quarter of 2010. Sales and results grew dynamically compared to the first quarter of 2009 as a result of unbroken strong demand for cellulose fibers in all major markets, the improved results situation of segment Plastics Products, and the positive business development of Engineering.

The Lenzing Group

First quarter consolidated sales grew by a substantial 32.9 %, from EUR 284.0 mill. to EUR 377.4 mill. This dynamic increase reflects higher fiber quantity due to production at full capacity, compared to the reference period of 2009. Production then had been cut back at the non-integrated sites. Moreover, Lenzing managed to raise fiber prices from the unsatisfactory levels of last year's first quarter already in the last quarter of 2009 and now as well in the first quarter of 2010. The rise in sales was about equally due to the increase in quantity as in prices.

Cost of material and purchased services rose slower than sales, by 22.4 %, to EUR 205.1 mill. At its non-integrated sites Lenzing in the first quarter of 2010 still benefited from the favorable pulp prices of the previous quarters. The rise in personnel expenses by 5.5 % from EUR 63.6 mill. to EUR 67.1 mill. was essentially the result of the increase in staff at the Indonesian subsidiary PT. South Pacific Viscose (SPV) due to the startup of its fourth production line. The growth of other operating expenses resulted from higher shipped quantity and maintenance costs in segment Fibers.

Substantially increased margins and improved fixed cost degression due to the high quantity of produced and shipped fibers created a quarterly income from operations of EUR 49.7 mill. (reference period 2009: minus EUR 1.9 mill.). Lenzing again accomplished results as those of the boom years 2007/08 and generated the best quarterly result in its history.

The improved financial result of minus EUR 1.8 mill. (2009: minus 4.6 mill.) was a consequence of lower net debt at improved borrowing costs. It enabled EBT of EUR 47.9 mill. (2009: minus EUR 6.5 mill.) and a period profit of EUR 36.7 mill. (2009: loss EUR 5.4 mill.) which corresponds to quarterly earnings per share of EUR 9.22 as compared to the corresponding quarterly loss of EUR 0.98 in 2009.

The first quarter EBIT margin came to 13.2 % (2009: –0.7 %) and the EBITDA margin to 18.6 % (2009: 6.0 %).

The balance sheet of the Lenzing Group as at 31 March 2010 shows an adjusted equity ratio[1] of 43.3 % (year-end 2009: 43.5 %). Continued high investment in property, plant and equipment as well as in intangible assets of EUR 30.5 mill. in the first quarter (reference period 2009: EUR 40.0 mill.) is reflected in the increase in property, plant and equipment to EUR 865.4 mill. (balance sheet date 31 December 2009: EUR 841.7 mill.). Significant contributing factors were the major investments in the sites in Purwakarta (SPV) in Indonesia, Lenzing and Heiligenkreuz (Austria). Nevertheless, net debt was again slightly improved to EUR 303.7 mill. (year-end 2009: EUR 315.7 mill.).

The increase in production volume and in pulp stock, in particular as part of the startup of production line four at SPV, caused a rise in trading working capital[2] of EUR 38.3 mill.

[1] Incl. government grants less prop. deferred taxes [2] Inventories plus trade receivables minus trade payables

Strong first quarter. Dynamic increase of sales and results.

Segment Fibers

The cotton price as the indicator price of the global fiber market climbed to 86 US cents per pound at the end of the reporting period. The strong global demand for cellulose fibers which had been noticeable already in the previous quarters continued undiminished into the first quarter of 2010. In some markets, in particular in Asia, demand increased due to capacity expansion in downstream production.

Business units Textile Fibers and Nonwoven Fibers

Lenzing's standard and special fiber business met with very good market success, in particular with brand producers in the upper price segment. These increasingly opt for innovative solutions using Lenzing's special fibers Lenzing Modal® and TENCEL®. Business development in Nonwovens was very gratifying, too. Following the rebound in Asia the markets in the USA and Europe significantly recovered from the previous year and triggered strong demand for Lenzing fibers. All fiber production facilities of the Lenzing Group are operating at full capacity with some of them setting new production records. Stock levels are at an absolute minimum.

Investment activity

The Indonesian subsidiary PT. South Pacific Viscose (SPV) in the first quarter of 2010 started first successful test runs of its new fourth production line. Regular operation is expected to begin in the course of the second quarter. The viscose fibers produced are for textile applications and for the nonwovens industry. Both are intended for the domestic Indonesian market, as well as for export. Total investment came to USD 150 mill. In view of the very strong demand, the startup of SPV's fourth production line came at exactly the right time.

The Lenzing Group at the end of March decided on a new expansion program. Investment of EUR 55 mill. will more than double viscose fiber production capacity in Nanjing (China) to 140,000 tons annually. Construction time has been set for 18 months. Within the next 15 months an existing fiber production line at the Lenzing site will be gradually converted from standard viscose fiber to modal fiber production. The new program complements the current fiber capacity expansion of EUR 120 mill. decided in December 2009. The capacity expansion in China and the full operation, including subsequent debottlenecking, of the fourth production line of the Indonesian subsidiary (SPV) raises Lenzing's Asian production capacity to 378,000 tons annually, representing already half of the Group's global fiber capacity. The recent investment program will increase the total fiber production capacity of the Lenzing Group to 770,000 tons annually. Lenzing thereby will secure customer supply with high quality fibers across all sectors.

Moreover, a new viscose fiber production site in India has reached the planning stage.

Acquisition of pulp factory Biocel Paskov

At the beginning of April, Lenzing acquired 75 % of the Czech pulp producer Biocel Paskov A.S. from the Austrian Heinzel Holding which will retain the remaining 25 % and will operate the distribution of paper pulp. Biocel paper pulp production capacity runs to about 280,000 tons per year. In the next three years Lenzing intends to invest EUR 50 mill. in the site's capacity expansion, measures to increase energy efficiency and recovery systems. Biocel Paskov in the medium and long run will provide Lenzing with the option of producing paper pulp as well as dissolving pulp for fibers.

The acquisition of Biocel is an important strategic step towards the Group's long-term extension of its vertical backwards integration. The expansion and adaptation of the site to a swing capacity producer of pulp will enable Lenzing to flexibly adjust to given pulp market situations and to then either produce dissolving pulp for its fiber production or paper pulp for external customers. The acquisition is part of a hedging strategy to protect Lenzing from the impact of high pulp price volatility.

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Segment Plastics Products

The sales markets of the segment developed unevenly. However, these markets on the whole stabilized and slightly recovered from the very difficult year 2009, although there is still improvement potential for some product groups.

Business unit Plastics noted good demand for thermoplastics for the construction and the cable industry, the PTFE* business remained behind expectations due to the general demand situation. Business unit Filaments significantly recovered compared to the difficult year 2009. Site order bookings on the whole improved compared to 2009 and contributed to the positive quarterly result of segment Plastics Products.

Segment Engineering in the first quarter experienced a slight stimulation of the market which was reflected in a rise in inquiries. This trend is expected to firm up and to lead to actual order bookings by external customers. The business development of segment Engineering in the first quarter corresponded to the difficult market situation and was positive.

General shareholders' meeting 2010

The general shareholders' meeting of Lenzing AG on 30 April 2010 decided to pay an unchanged dividend of EUR 14.00 per share for business year 2009. Michael Junghans, business manager of B & C Holding, was newly elected to the supervisory board. The members of the current board therefore are Hermann Bell, Michael Junghans, Helmut Bernkopf, Josef Krenner, Walter Lederer, Martin Payer, as well as Andreas Schmidradner and Veit Sorger.

The members of the management and supervisory boards were discharged for business year 2009.

The subsequent constituent meeting of the supervisory board reelected Hermann Bell as chairman and appointed Michael Junghans as deputy.

Thomas Winkler appointed as new head of finance

The supervisory board of Lenzing AG appointed Thomas G. Winkler to the management board for a period of three years as of 1 April 2010. He will be responsible for finance, IT and purchasing, as well as for legal and risk management. Thomas Winkler looks back on twelve years of international experience, in particular on six years as the head of finance of T-Mobile International AG.

*) PTFE: polytetrafluoroethylene

Outlook

The next months are expected to show continuing strong demand in core business fibers. The consistent expansion of fiber production capacity, in particular the full operation of the fourth line at SPV, will enable continuing good sales and results in the further course of the year. However, attention should be paid to the substantial increase in individual raw material prices, such as pulp, sulfur and wood, and the already well-saturated textile pipeline. Both factors might lead to weaker demand which, on the other hand, would reduce the danger of market overheating. Positive long-term market expectations for cellulose fibers remain unaffected.

Segments Plastics Products and Engineering can expect a more stable development of sales and results over the next months.

From today's perspective the Lenzing Group in 2010 expects a significant increase in sales and results compared to 2009.

We will keep you informed on the further development of our business with the publication of our half-year results in August 2010.

Lenzing, May 2010

The Management Board

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Income statement

According to IFRS	1-3/2010	1-3/2009
	EUR mill.	EUR mill.
Sales	377.4	284.0
Changes in inventories and work performed by the Group and capitalized	4.1	(3.8)
Other operating income	7.0	8.4
Cost of material and purchased services	(205.1)	(167.6)
Personnel expenses	(67.1)	(63.6)
Amortization of intangible assets and depreciation of property, plant and equipment	(21.2)	(19.7)
Other operating expenses	(45.4)	(39.6)
Income from operations (EBIT)	**49.7**	**(1.9)**
Financial income and expenses	(1.8)	(4.6)
Income before tax (EBT)	**47.9**	**(6.5)**
Income tax	(11.2)	1.1
Profit/loss for the period	**36.7**	**(5.4)**
Attributable to:		
Shareholders of Lenzing AG	33.9	(3.6)
Shareholders with non-controlling interests	2.8	(1.8)
	EUR	EUR
Earnings per share	9.22	(0.98)

Statement of financial position

According to IFRS	31/03/2010		31/12/2009	
Assets	EUR mill.	in %	EUR mill.	in %
Intangible assets	93.2	6.0	88.0	6.0
Property, plant and equipment	865.4	55.2	841.7	58.2
Financial assets	48.8	3.1	42.2	2.9
Other non-current assets including deferred tax assets	5.7	0.4	5.2	0.4
Non-current assets	**1,013.1**	**64.7**	**977.1**	**67.5**
Inventories	189.8	12.0	175.6	12.1
Trade and other receivables	196.0	12.5	169.2	11.7
Investments	14.9	1.0	19.9	1.4
Cash and cash equivalents	152.9	9.8	105.4	7.3
Current assets	**553.6**	**35.3**	**470.1**	**32.5**
	1,566.7	100.0	1,447.2	100.0
Equity and Liabilities				
Equity	**653.4**	**41.7**	**606.1**	**41.9**
Government grants	**31.0**	**2.0**	**29.3**	**2.0**
Bank loans and other loans	416.7	26.6	400.3	27.7
Provisions including deferred tax liabilities	126.0	8.1	123.1	8.5
Trade payables and other liabilities	6.7	0.4	6.8	0.5
Non-current liabilities	**549.4**	**35.1**	**530.2**	**36.7**
Bank loans and and other loans	54.8	3.5	40.7	2.8
Provisions for current income tax and other provisions	143.2	9.1	119.4	8.2
Trade payables and other liabilities	134.9	8.6	121.5	8.4
Current liabilities	**332.9**	**21.2**	**281.6**	**19.4**
	1,566.7	100.0	1,447.2	100.0

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Cash Flow Statement

According to IFRS	1-3/2010	1-3/2009
	EUR mill.	EUR mill.
Gross cash flow	59.1	12.6
Change in working capital	(4.7)	24.5
Operating cash flow	**54.4**	**37.1**
- Acquisition of non-current assets	(36.3)	(40.1)
- Acquisition of securities held as current assets	0.0	(7.4)
+ Proceeds from the disposal/repayment of non-current assets	0.2	3.0
Net cash used in investing activities	**(36.1)**	**(44.5)**
+ Payments of other shareholders	0.0	1.0
+ Receipts from financing activities/- repayment of loans	22.2	(13.6)
Net cash provided by (+)/used in (-) financing activities	**22.2**	**(12.6)**
Change in cash and cash equivalents	**40.5**	**(20.0)**
Cash and cash equivalents at the beginning of the year	125.3	105.8
Currency translation adjustment relating to cash and cash equivalents	2.0	1.5
Cash and cash equivalents at the end of the reporting period	**167.8**	**87.3**

Smart products for great customers

JILL DUMAIN · Patagonia

"We are pleased every time to see that Lenzing is always receptive to environmental protection issues. We highly value the fact that Lenzing makes sustainability a top priority for its fibers."

Jill Dumain · Director of Environmental Strategy, Patagonia

HENRIK LAMPA · H&M

"We are working with Lenzing because its products add value to our customer offer – our customers care about the environment and Lenzing's fibers help them make a greener choice".

Henrik Lampa · CSR Manager
Team Product, H&M

patagonia

Patagonia, the outdoor wear specialist stands for sustainable sportswear. The Ventura, California-based firm grew out of a small company that made tools for climbers. Alpinism remains at the heart of a worldwide business that still makes clothes for climbing – as well as for skiing, snowboarding, surfing, flyfishing, paddling and trail running. Today Patagonia employs 1,300 people at 48 locations globally.

We have been relying on Lenzing fibers since 1998. For Patagonia, protecting the environment is given at least the same priority as the company's business success. Lenzing's products, in particular its TENCEL® fibers, make a reliable contribution to Patagonia's efforts.

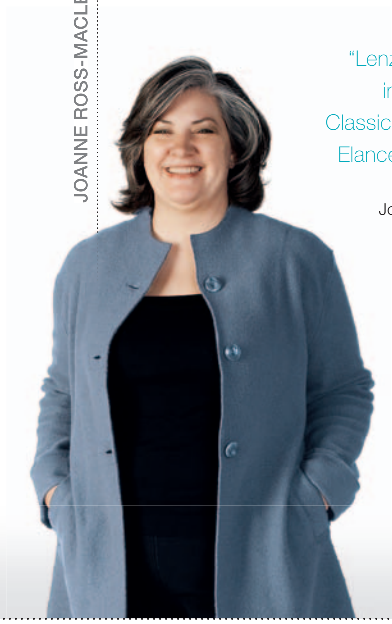
H&M

H&M's business idea is to offer its customers fashion and quality at the best price. H&M has expanded substantially in recent years and has now around 2,000 stores spread over 37 markets.

H&M's business concept is to offer its customers fashion and quality at the best price. At H&M, quality is about more than making sure that the products meet or exceed the customers' expectations. It also means that they should be manufactured under good conditions and that the customers are satisfied with H&M as a company. Lenzing with its sustainable fiber products from the natural resource wood therefore is an ideal match for H&M.

Smart products for great customers

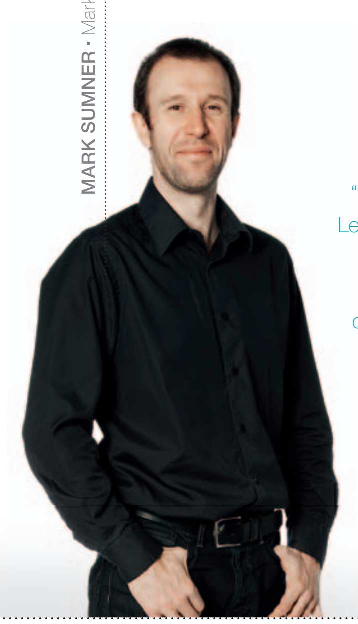
JOANNE ROSS-MACLEOD · Jockey



"Lenzing was a model partner in developing the Jockey® Classics Supersoft and Jockey® Elance® Supersoft collections."

Joanne Ross-Macleod · Manager Fabric Development, Jockey

MARK SUMNER · Marks & Spencer



"Marks & Spencer is working with Lenzing as we reocognize its ability to develop innovative products that are delivered with the consistency of quality required by our suppliers and customers."

Mark Sumner · Sustainable Raw Materials Specialist, Marks & Spencer

JOCKEY®

From the invention of the brief in 1934, to the introduction of its No Panty Line Promise® leg treatment in 2000, Jockey has become an innovation leader in the world of men's and women's underwear. Jockey can be found in more than 120 countries in thousands of department and specialty stores.

Lenzing was a model partner in developing the Jockey® Classics Supersoft and Jockey® Elance® Supersoft collections. Through Lenzing's support, innovation and the amazing properties of their Micromodal® fiber fabric, Lenzing partnered with Jockey to deliver products with enhanced softness and expanded appeal in an increasingly complex market.

YOUR M&S

Marks & Spencer is one of the UK's leading retailers, globally recognized, with over 21 million people visiting its stores each week. Marks & Spencer offers stylish, high quality, great value clothing.

Now more than ever, Marks & Spencer is known for its green credentials as a result of its 180-point eco and ethical plan, Plan A, which was launched in January 2007. Through Plan A Marks & Spencer is working with customers and suppliers to combat climate change, reduce waste, use sustainable raw materials and trade ethically. Lenzing is a well respected organisation in the development of innovative products and is one of the suppliers of Marks & Spencer.

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