A matter of lifestyle

LETTER TO SHAREHOLDERS 01/2011 · Lenzing Group

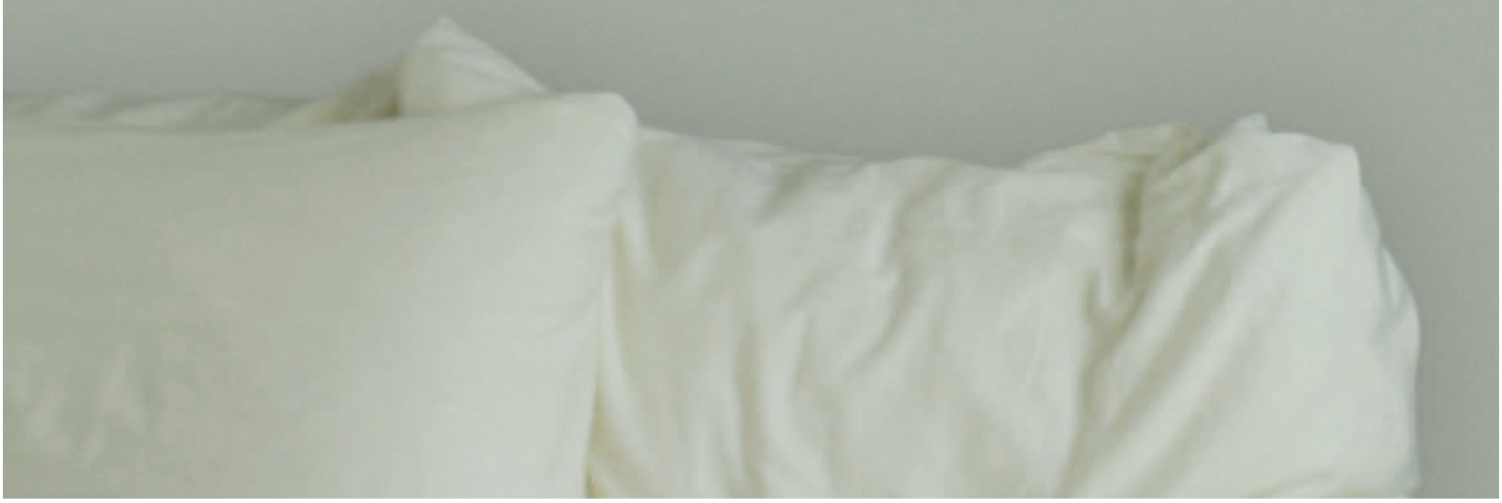
LENZING

LEADING FIBER INNOVATION

www.lenzing.com

A matter of lifestyle

Every challenge in life has its unique charm. But whether a fleeting moment will become a lasting memory or just fade away is a matter of lifestyle. Lenzing fibers make the event permanent: Be it in nature or at sports, be it with oneself or with and for others. Lenzing's fiber variety offers the right choice whenever and wherever the matter of lifestyle really matters.



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We don't rest on our laurels

Beddings made of TENCEL® tempt us to drift off into a pleasant sleep. Nevertheless we stayed awake and active in the year 2011. The results speak for themselves. But the competition never sleeps. As the market leader we also want to expand our position in the future and exploit growth opportunities in the market.

MANAGEMENT REPORT

Management Report 01/2011

General market environment

Global economy

World trade once again expanded significantly at the beginning of the year 2011. In particular, the Asian emerging markets significantly accelerated their dynamic growth and thus acted as the most important growth driver for the global economy[1]. For 2011 experts anticipate worldwide economic growth of 4.5%, but with major differences between the industrialized nations and the emerging markets. Whereas the economies of the highly developed industrial countries are expected to expand by 2.5%, the International Monetary Fund (IMF) predicts a 6.5% growth rate for the emerging markets[2]. The forecast concludes that China will register the highest GDP growth rate of 9.6% in 2011, followed by India with 8.2%[3].

At the same time, the credit volume in the emerging markets will expand due to the low real interest rates, which is why the IMF warns of a potential danger of the economies overheating in these countries. China and other emerging markets are trying to counteract this development by taking measures such as raising interest rates. Moreover, the increase in raw material and energy prices are restraining business activity. Nevertheless, the economies of the Asian emerging markets should continue to develop dynamically, and also considerably contribute to global economic growth in the medium-term[4]. On balance, European markets should profit from this development.

The macro-economic impact of the serious earthquake and tsunami as well as the nuclear accident in Japan should be limited, according to experts' opinions[5]. This has also been confirmed by the experience gained in recent weeks. However, the ultimate consequences of the catastrophe are still not discernible.

World fiber market

The dynamic development of the global fiber market in 2010 continued unabatedly in the first quarter of 2011. Strong private consumption in the emerging markets combined with the good economic situation in the Western industrialized nations were the main causes underlying this positive market development.

Demands for cotton and viscose were correspondingly strong, with fiber demand exceeding the available supply by far, as was the case in the previous months. Fiber prices continued to remain at a very high level, both for textile applications as well as for nonwovens. The "cellulose gap" i.e. the structural, long-term undersupply of the market with cellulosic fibers (cotton and viscose) is the primary reason for this development. The cotton price, which is of great significance as the benchmark for the entire fiber market, fluctuated between approx. USD 2.44/lb and USD 2.69/lb during the first quarter of 2011. The current oil price and strong demand also led to higher polyester fiber prices.

The price of yarns also continued to rise, with the volatility of yarn prices increasing in recent weeks, particularly in Asia. The historical all-time high prices for fibers and yarns led to some degree of uncertainty in the textile chain, price increases for fibers are not yet passed on through the entire textile value chain to the end product.

1) See WIFO, Press information, March 31, 2011, "Prognose für 2011 und 2012: Aufschwung verstärkt sich, Risiken nehmen zu" 2) International Monetary Fund, World Economic Outlook, April 2011 3) International Monetary Fund, World Economic Outlook, April 2011 4) See WIFO, Press information, March 31, 2011, "Prognose für 2011 und 2012: Aufschwung verstärkt sich, Risiken nehmen zu" 5) International Monetary Fund, World Economic Outlook, April 2011

Development of the Lenzing Group

The Lenzing Group can look back on the most successful quarter in the company's history to date. Although the first quarter of 2010 had developed very positively already, consolidated sales in the first three months of 2011 increased by 45.8% from the prior-year period, rising from EUR 365.0 mill. to EUR 532.1 mill. The reasons were increased shipment volumes as a result of the expansion of production capacities, as well as the significantly higher selling prices for fibers. Moreover, the pulp plant Biocel Paskov was not yet included in the consolidated financial statements in the first quarter of 2010. Adjusted for acquisitions, the growth in sales amounted to 36.3%. The cost of material and purchased services climbed 53.3% to EUR 304.6 mill. in the first quarter of 2011. This can be attributed to higher production volumes compared to the prior-year quarter, as well as price increases for wood and pulp, chemicals and energy. Personnel expenditures in the first quarter of 2011 rose 8.7% year-on-year to EUR 68.8 mill., which was also due to the consolidation of Biocel Paskov. Depreciation was up 21.3% to EUR 25.1 mill., as a result of recent investments to expand production capacities for fibers and pulp.

The increased fiber shipment volumes and higher prices enabled an 83.6% improvement in the operating profit (EBIT) during the first quarter of 2011, to EUR 90.7 mill., up from a good level of EUR 49.4 mill. in the prior year. This corresponds to an EBIT margin of 17.0% (Q1 2010: 13.5%).

The slight interest rate-related decline in the financial result to minus EUR 3.6 mill. (Q1 2010: minus EUR 1.7 mill.) led to an income before tax (EBT) of EUR 84.8 mill., which was 82.4% higher than the comparable first quarter 2010 EBT of EUR 46.5 mill. After income tax of EUR 17.9 mill. in the first quarter of 2011 (Q1 2010: EUR 11.0 mill.), the net income for the period totaled EUR 66.9 mill. (Q1 2010: EUR 35.5 mill.), a rise of 88.5%.

EBITDA in the first three months of 2011, up 65.8% to EUR 114.9 mill. (Q1 2010: EUR 69.3 mill.), and the EBITDA margin of 21.6% (Q1 2010: 19.0%) both represent a new all-time high.

There was also a significant improvement of all performance indicators compared to the fourth quarter of 2010. Consolidated sales were up 10.7%, the quarterly EBITDA rose 18.4%, EBIT in the first quarter of 2011 increased by 43.7% (adjusted for non-recurring effects 19.8%) and the net income for the period was 41.8% higher.

Earnings per share amounted to EUR 2.43 (Q1 2010: EUR 1.32), a rise of 84.8%.

Investments in intangible assets and property, plant and equipment in the first quarter of 2011 amounted to EUR 41.9 mill., up from EUR 30.5 mill. in the prior-year quarter. These investments almost exclusively related to the ongoing fiber production capacity expansion program. As reported in the past, Lenzing plans to invest approx. EUR 1.5 billion through 2014 including maintenance investments. Fiber production capacity shall be increased to more than one million tons, mainly through expansion and modernization investments. In addition, Lenzing plans to increase the level of own supply of its most important raw material pulp.

On the balance sheet side, equity of the Lenzing Group as of the end of March 2011 (after deducting the dividend of EUR 39.9 mill. for 2010) amounted to EUR 744.1 mill., compared to EUR 732.0 mill. at the end of 2010. Adjusted equity[1] rose to EUR 773.0 mill. from the prior-year level of EUR 758.8 mill. Despite the expenditures for investments, non-current liabilities declined to EUR 705.1 mill., down from EUR 730.1 mill. at the end of 2010. Net debt at the end of the first quarter 2011 could also be reduced to EUR 256.0 mill. from EUR 307.2 mill. at year's end 2010. This corresponds to a net gearing (before the dividend payout) of 33.1% (end of 2010: 40.5%). The adjusted equity ratio as of March 31, 2011 was almost stable at 38.1% of the balance sheet total as compared to 38.6% at the end of the previous year.

Cash and cash equivalents at the end of March 2011 amounted to EUR 314.2 mill. (Dec. 31, 2010: EUR 254.5 mill.). It is important to note that the payment of the dividend totaling EUR 39.9 mill. took place only on April 1, 2011.

[1] Incl. investment grants, less proportionate deferred taxes

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The number of employees of the Lenzing Group at the end of the first quarter of 2011 increased to 6,244 (March 31, 2010: 5,643[1], December 31, 2010: 6,143[1]), which was mainly due to the acquisition of Biocel Paskov and the hiring of new employees at Lenzing's Austrian and Asian sites.

Segment reporting

Segment Fibers

The business development of the Segment Fibers in the Lenzing Gruppe was shaped by the strong global demand for fibers as well as the consequences of the "cellulose gap". All available production facilities were operating at their maximum capacities. In this regard, additional capacities were available compared to the prior-year quarter thanks to the start of operations of the fourth production line and the debottlenecking program at SPV in Indonesia, as well as higher quantities from Nanjing Fibers (China) and Heiligenkreuz (Austria).

Consolidated segment sales rose from EUR 328.1 mill. in the first quarter of 2010 to EUR 481.4 mill. in the first quarter of 2011, an increase of 46.7%. EBITDA of the Segment Fibers climbed 65.4% to EUR 109.7 mill. (March 31, 2010: EUR 66.4 mill.). Segment EBIT increased by 84.0%, rising from EUR 47.2 mill. to EUR 86.9 mill. year-on-year.

At the beginning of 2011, selling price increases of about 10% were implemented in the two Business Units Textile Fibers and Nonwoven Fibers, and were well accepted by the market. Although the costs of material and purchased services and personnel expenditures were higher than in the first quarter of 2010, the cost rises could be held within reasonable limits compared to the fourth quarter of 2010. This enabled a further improvement in the operating margin of the two Business Units.

The expansion of fiber production capacities is proceeding on schedule. The first test runs at the second production line in Nanjing (China) will likely take place in mid-2011. Construction of the fifth production line at SPV (Indonesia) and the conversion of the TENCEL® site in Grimsby (U.K.) to allow for the manufacturing of the specialty fiber A-100 are progressing well. Lenzing is confident that it will be able to achieve a nominal fiber production capacity of about 770,000 tons p.a. by the end of 2011, up from 710,000 tons at the end of 2010.

Outlook Business Unit Textile Fibers and Business Unit Nonwoven Fibers

The global fiber market is expected to continue developing positively in the course of the year 2011. The good economic development, strong domestic demand in the emerging markets and the "cellulose gap" continue to be the main driving forces of the fiber market. According to the International Cotton Advisory Committee (ICAC) on April 1, 2011, cotton prices are anticipated to decline somewhat during the course of the year 2011 following the historic all-time highs reached earlier. However, ICAC anticipates only a slight cotton price drop in the year 2011/12 compared to the record year 2010/11. This is forecast, despite expectations for the global cotton harvest being high for the upcoming cotton year, due to the very high prices for cotton in the first quarter leading many farmers to plant additional cotton. It is also important to note the very low cotton stocks. The continuous high price of oil should also keep polyester fiber prices at a comparatively high level.

Demand for Lenzing fibers remained uninterruptedly strong at the beginning of the second quarter 2011. The structural excess demand for cellulosic fibers as a consequence of the "cellulose gap" as well as the good global positioning of Lenzing fibers on the global market were the decisive factors underlying this development.

[1] Only continuing operations

At the beginning of the second quarter, Lenzing was able to implement further price increases, particularly for its specialty fibers Lenzing Modal® and TENCEL®. These price adjustments equally affected the Business Units Textile Fibers and Nonwoven Fibers. In spite of these additional price raises, Lenzing fibers still cost significantly less than cotton, which underlie Lenzing's positive view concerning the further margin development of the Business Units Textile Fibers and Nonwoven Fibers in 2011. In a long-term comparison, viscose had always commanded a price premium vis-à-vis cotton.

Business Units Pulp and Energy

The global pulp market in the first quarter of 2011 was characterized by a further upward movement in prices and volume demand. The market for chemical pulp (dissolving pulp), which is comparatively small compared to the market for paper pulp, saw growing demand on the part of the viscose fiber industry in the light of the continuing supply shortage on the free market, which in turn led to further price increases. All-time high prices of close to USD 2,500/ton were achieved on the spot market. This price development is causing several pulp companies to convert or refurbish their facilities from paper to chemical pulp. However, new significant capacities are unlikely to be available on the market before the end of 2012.

Despite the difficult market situation, Lenzing managed to fully cover the pulp requirements of its non-integrated fiber production in the first quarter of 2011 at competitive costs. Once more Lenzing's long-term partner-like delivery contracts and forward-looking storage policy proved their value. Similarly, the supply of the integrated fiber and pulp production plant at the Lenzing site was also secured thanks to the ongoing expansion of pulp production. However, Lenzing had to cope with rising wood prices compared to the first quarter of 2010 as well as the fourth quarter of 2010.

The pulp plant Biocel Paskov, acquired by Lenzing in 2010, developed as planned, although wood prices rose significantly. The conversion of the Paskov facility to a swing capacity producer for both paper and chemical pulp is proceeding on schedule. Initial test quantities of fiber pulp could already be manufactured by Biocel Paskov.

Energy prices rose significantly during the period under review due to rising consumption, as well as the political unrest in North Africa and the consequences of the nuclear accident in Japan.

Outlook Business Units Pulp and Energy

The supply of wood and pulp for the Lenzing Group for fiber production is secured for the rest of the year 2011 at competitive conditions.

An upward trend in prices for oil as well as electricity is expected due to the ongoing unrest in North Africa and the discussions focusing on the future of electricity supplies in connection with the events at Fukushima. Currently, rising energy prices can still be passed on to the market.

Segments Plastics Products and Engineering

The overall business environment for the Business Unit Plastics developed positively in the first quarter of 2011. The ongoing economic recovery served as the basis for an improved order situation in most business areas, and a good volume business. Thus, the slow recovery in the construction industry had a positive impact, as did the good situation in the European automobile industry. The polytetrafluoroethylene (PTFE) business also developed better than in the previous year. In contrast, rising raw material costs had a negative impact. Nevertheless, satisfactory quarterly results could be achieved.

Segment sales in the first quarter of 2011 amounted to EUR 44.9 mill. (Q1 2010: EUR 32.8 mill.), a rise of 37.0%. EBITDA

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of the Segment Plastics Products was EUR 3.3 mill., a rise of 51.2% from the previous year, whereas segment EBIT totaled EUR 1.6 mill.

Effective February 18, 2011, the plastic filaments business was sold to a consortium led by the Global Equity Partners Group.

Business development in the Segment Engineering was characterized by a good order situation in the first quarter of 2011. The main reasons were the ongoing large-scale investments of the Lenzing Group, as well as the increased volume of orders placed by external customers. The gratifying first-quarter earnings were above the prior-year level.

Total sales of the segment amounted to EUR 30.8 mill. in the first quarter of 2011 (Q1 2010: EUR 17.8 mill.), an increase of 72.9%. Segment EBITDA improved from EUR 1.4 mill. in the previous year to EUR 2.6 mill, and segment EBIT doubled in the same period from the prior-year figure of EUR 1.1 mill. to EUR 2.2 mill. in the first three months of 2011.

Outlook Segments Plastics Products and Engineering

An ongoing stable and positive development is expected in both Segments for the current business year.

Outlook Lenzing Group

The core fibers business of the Lenzing Group continues to benefit from a continuing upward trend. Assuming a stable global economy which is not negatively influenced by geopolitical events, the 2011 business year of the Lenzing Group is expected to develop more favorably than originally forecast at the beginning of the year.

The main reasons are the price increases which are being accepted better than expected, especially for the specialty fibers (Lenzing Modal® and TENCEL®), which in turn is related to the current global fiber price structure accompanied by high cotton prices. On the one hand, the price increases announced at the beginning of the first quarter of 2011 could be implemented very quickly and fully. On the other hand, they fully impact earnings in the light of cost developments which have turned out to be more moderate than originally budgeted.

The Management Board plans consolidated sales to increase to between EUR 2.1 billion and EUR 2.2 billion. Furthermore, for the business year 2011, the Management Board is targeting to achieve an EBITDA margin of 21% – 23% and an EBIT margin of 16% – 18%. The Management Board also plans investments and the payout ratio for 2011 to remain unchanged at approximately 15% of sales, and at approximately 25% of the consolidated net income for the year, respectively.

Risk report

Current risk environment

On balance, the risk situation in the first quarter of 2011 has not significantly changed compared to the risk scenario outlined in the Annual Report 2010. For this reason, we recommend reading the following current explanations together with the risk report contained in the Annual Report 2010.

Continuous growth in Asia as well as the extended use of specialty fibers in Europe and the USA will contribute to improving the competitive risk situation of the Lenzing Group.

The tight supply situation on the global pulp market has not changed since the previous risk report was published. The integration of Biocel Paskov and the extension of delivery contracts will contribute to improving the medium-term supply risk situation.

On the procurement side, higher raw material prices, in particular for pulp and chemicals, will burden the margin situation as long as the higher costs cannot be fully included in selling prices. With respect to energy costs, the earthquake catastrophe in Japan and political changes in the Northern African countries have increased the risk. A potential phasing out of nuclear power and the related effects on energy prices are not predictable from today's point of view.

A further weakening of the US dollar against the Euro will increase Lenzing's risk of incurring exchange rate losses or could lead to a negative effect on reporting in Euro.

Risks such as natural catastrophes, environmental and fire risks as well as the increasing production liability risks continue to comprise an inherently high loss potential for the Lenzing Group.

In considering risks, the worldwide interconnectedness of markets is playing an increasingly important role. The occurrence of local events can often have far-reaching consequences, which in turn can have negative effects on the business operations of the Lenzing Group.

We‘ve done our homework

Whoever wants to be the best in class must always be alert and diligently do his or her homework. This means Lenzing focuses on ensuring ongoing innovation, maintaining a dialog with customers and employees and developing appropriate responses to market challenges. Lenzing finished the first quarter 2011 with the best possible marks.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Interim Consolidated Financial Statements

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Income Statement

		1-3/2011	1-3/2010*
Continuing operations	Note	EUR mill.	EUR mill.
Sales	(6)	532.1	365.0
Changes in inventories of finished goods and work in progress		2.5	(3.3)
Work performed by the Group and capitalized		7.5	7.2
Other operating income		10.9	7.1
Cost of material and purchased services	(7)	(304.6)	(198.7)
Personnel expenses	(8)	(68.8)	(63.3)
Amortization of intangible assets and depreciation of property. plant and equipment	(9)	(25.1)	(20.7)
Other operating expenses	(10)	(63.8)	(43.9)
Income from operations (EBIT)		**90.7**	**49.4**
Income from investments in associates		0.9	0.5
Other investment income		0.7	1.7
Finance costs	(11)	(5.2)	(3.9)
Financial result		**(3.6)**	**(1.7)**
Allocation of profit or loss to puttable non-controlling interests	(12)	(2.3)	(1.2)
Income before tax (EBT)		**84.8**	**46.5**
Income tax	(13)	(17.9)	(11.0)
Profit for the period after taxes from continuing operations		**66.9**	**35.5**
Discontinued operations			
Result from discontinued operations		0.0	0.0
Profit for the period		**66.9**	**35.5**
Attributable to shareholders of Lenzing AG		62.6	33.9
Attributable to non-controlling interests		4.3	1.6
Earnings per share		EUR	EUR
From continuing operations and discontinued operations		2.43	1.32
From continuing operations		2.43	1.32

*) Values adjusted according to IFRS 5

Interim Consolidated Financial Statements

Statement of Comprehensive Income

	Common stock	Capital reserves	Foreign currency translation reserve
1-3/2010	EUR mill.	EUR mill.	EUR mill.
Profit for the period			
Exchange differences arising during the period			13.1
Gains/losses from the valuation of cash flow hedges arising during the period			
Reclassification adjustments for amounts from cash flow hedges recognized in profit or loss			
Income tax relating to components of other comprehensive income			
Other comprehensive income for the period – net of tax			**13.1**
Total comprehensive income for the period			**13.1**
1-3/2011			
Profit for the period			
Exchange differences arising during the period			(17.8)
Net result on revaluation of available-for-sale financial assets during the period			
Gains/losses from the valuation of cash flow hedges arising during the period			
Reclassification adjustments for amounts from cash flow hedges recognized in profit or loss			
Income tax relating to components of other comprehensive income			
Other comprehensive income for the period – net of tax			**(17.8)**
Total comprehensive income for the period			**(17.8)**

Share of Lenzing AG shareholders					Non-controlling interests	Equity total
Available-for-sale financial assets	Cash flow hedging reserve	Actuarial gains/(losses) on defined benefit plans	Retained earnings	Total		
EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.
			33.9	**33.9**	**1.6**	**35.5**
				13.1	0.6	13.7
	(4.0)			(4.0)		(4.0)
	(1.1)			(1.1)		(1.1)
	1.2			1.2		1.2
	(3.9)			**9.2**	**0.6**	**9.8**
	(3.9)		**33.9**	**43.1**	**2.2**	**45.3**
			62.6	**62.6**	**4.3**	**66.9**
				(17.8)	(0.6)	(18.4)
(0.6)				(0.6)		(0.6)
	1.5			1.5	0.4	1.9
	3.6			3.6	(0.2)	3.4
0.2	(1.1)			(0.9)		(0.9)
(0.4)	**4.0**			**(14.2)**	**(0.4)**	**(14.6)**
(0.4)	**4.0**		**62.6**	**48.4**	**3.9**	**52.3**

Interim Consolidated Financial Statements

Statement of Changes in Equity

	Common stock	Capital reserves	Foreign currency translation reserve
	EUR mill.	EUR mill.	EUR mill.
Balance at 1 Januray 2010 before	26.7	63.6	(18.7)
Adjustments according to IAS 8			
Balance at 1 Januray 2010 adjusted	26.7	63.6	(18.7)
Total comprehensive income for the period			13.1
Balance at 31 March 2010	26.7	63.6	(5.6)
Balance at 1 Januray 2011	26.7	63.6	(0.6)
Total comprehensive income for the period			(17.8)
Change valuation dividend guarantee			
Dividends			
Balance at 31 March 2011	26.7	63.6	(18.4)

Share of Lenzing AG shareholders					Non-controlling interests	Equity total
Available-for-sale financial assets	Cash flow hedging reserve	Actuarial gains/(losses) on defined benefit plans	Retained earnings	Total		
EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.
0.1	(2.4)	(10.0)	516.6	575.9	30.2	606.1
					(20.7)	(20.7)
0.1	(2.4)	(10.0)	516.6	575.9	9.5	585.4
	(3.9)		33.8	43.0	2.3	45.3
0.1	(6.3)	(10.0)	550.4	618.9	11.8	630.7
(0.1)	1.5	(11.5)	624.3	703.9	28.1	732.0
(0.5)	4.1		62.6	48.4	3.9	52.3
					(0.3)	(0.3)
			(39.9)	(39.9)		(39.9)
(0.6)	5.6	(11.5)	647.0	712.4	31.7	744.1

Interim Consolidated Financial Statements

Statement of Financial Position

Assets	Note	31/03/2011 EUR mill.	31/12/2010 EUR mill.
Intangible assets	(14)	83.6	87.7
Property, plant and equipment	(14)	1,003.9	1,002.8
Investments in associates		25.6	24.7
Other financial assets		70.9	67.3
Deferred tax assets		11.2	10.1
Other non-current assets		2.4	2.5
Non-current assets		**1,197.6**	**1,195.1**
Inventories	(15)	221.4	222.8
Trade receivables	(16)	210.1	181.5
Current taxes		16.5	14.8
Other receivables and assets		70.8	58.6
Investments		0.0	5.1
Cash and cash equivalents		314.2	249.4
		833.0	**732.2**
Assets of discontinued operations		0.0	36.1
Current assets		**833.0**	**768.3**
		2,030.6	1,963.4

Equity and Liabilities		31/03/2011	31/12/2010
		EUR mill.	EUR mill.
Common stock		26.7	26.7
Capital reserves		63.6	63.6
Currency translation reserves		(18.4)	(0.6)
Retained earnings and other reserves		640.5	614.2
Share of shareholders of Lenzing AG		**712.4**	**703.9**
Non-controlling interests		31.7	28.1
Equity	**(17)**	**744.1**	**732.0**
Government grants		**37.1**	**34.3**
Bonds, bank loans and other loans	(18)	526.0	552.3
Trade payables		1.5	1.5
Deferred taxes liabilities		35.1	36.9
Provisions		96.8	96.2
Puttable non-controlling interests		26.6	24.3
Other liabilities	(20)	19.1	18.9
Non-current liabilities		**705.1**	**730.1**
Bank loans and other loans	(18)	94.9	60.5
Trade payables		109.2	134.1
Provisions for current income tax		49.7	31.8
Other provisions	(19)	197.1	162.1
Puttable non-controlling interests		5.4	5.4
Other liabilities	(20)	88.0	38.6
		544.3	**432.5**
Liabilities of discontinued operations		0.0	34.5
Current liabilities		**544.3**	**467.0**
		2,030.6	1,963.4

Interim Consolidated Financial Statements

Cash Flow Statement

		1-3/2011	1-3/2010*
	Note	EUR mill.	EUR mill.
Gross cash flow			
from continuing operations		89.7	58.7
from discontinued operations		0.0	0.4
	(22)	**89.7**	**59.1**
Change in working capital		1.0	(2.6)
Net cash generated by discontinued operations		0.0	(2.1)
Operating cash flow	(22)	**90.7**	**54.4**
- Acquisition of non-current assets		(45.0)	(36.0)
+ Proceeds from the disposal/repayment of non-current assets		0.4	0.2
Net cash generated by discontinued operations		0.0	-0.3
Net cash used in investing activities	(22)	**(44.6)**	**(36.1)**
+ Payments of puttable non-controlling interests		1.5	0.0
- Dividends paid to shareholder		(0.1)	0.0
+ Government grants		1.2	0.3
+ Receipts from financing activities/repayment of loans		15.3	20.5
Net cash generated by discontinued operations		0.0	1.4
Net cash used in (-)/ generated by (+) financing activities		**17.9**	**22.2**
Change in cash and cash equivalents total		**64.0**	**40.5**
+/- Change in cash and cash equivalents of discontinued operations		0.0	0.6
Change in cash and cash equivalents of continuing operations		**64.0**	**41.1**
Cash and cash equivalents at beginning of the year		254.5	123.8
Currency translation adjustment relating to cash and cash equivalents		(4.3)	2.0
Cash and cash equivalents at the end of the year		**314.2**	**166.9**

*) Values adjusted according to IFRS 5

Key Figures

		31/03/2011	31/12/2010
Adjusted equity[1]	EUR mill.	773.0	758.8
Adjusted equity in %	%	38.1	38.6
Net financial debt	EUR mill.	256.0	307.2
Net debt[2]	EUR mill.	337.9	388.5
Net gearing	%	33.1	40.5
Open credit lines	EUR mill.	233.7	252.2
Number of employees at period end		6,244	6,530[3]
		1-3/2011	1-3/2010
EBITDA	EUR mill.	114.9	69.3
EBITDA margin	%	21.6	19.0
EBIT margin	%	17.0	13.5
Capital expenditure (intangible assets, property plant and equipment)	EUR mill.	41.9	30.5

1) Equity including grants less proportionally deferred taxes 2) Including obligations for pension and severance payments 3) Including employees discontinued operations

Interim Consolidated Financial Statements

Selected Explanatory Notes

Note 1. Presentation of the interim financial report

These condensed interim consolidated financial statements of the Lenzing Group for the period from 1 January to 31 March 2011 have been prepared in accordance with IAS 34 ("Interim Financial Reporting"). The accounting policies and valuation methods applied are in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In accordance with IAS 34 the condensed interim consolidated financial statements do not provide all of the information mandatory for the annual financial statements and therefore should be read along with the annual financial statements of the Lenzing Group for the year ended 31 December 2010.

The figures provided in the interim financial statements and in these notes are presented in million euros (EUR mill.) unless stated otherwise.

Note 2. Accounting policies

The following new or revised IFRSs and interpretations of IFRIC were adopted by the European Union and are to be applied for the first time to business year 2011 and may be applied to business year 2011 for the first time respectively:

Effective for business years beginning on or after 1 February 2010:

- Amendments to IAS 32 **Financial Instruments: Presentation** concerning the classification of rights issues

Effective for business years beginning on or after 1 July 2010:

- Amendments to IFRS 1 **First-time Adoption of International Financial Reporting Standards**
- IFRIC 19 **Extinguishing Financial Liabilities with Equity Instruments**
- Amendments to various IFRSs (IFRS 3, 7, IAS 21, 27, 31, 32, 38, 39) as a result of the annual improvement project 2010

Effective for business years beginning on or after 1 January 2011:

- Amendments to IAS 24 **Related Party Disclosures**
- Amendments to IFRIC 14 **IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**
- Amendments to various IFRSs (IFRS 1, 7, IAS 1, 34) and IFRIC 13 as a result of the annual improvement project 2010

Effective for business years beginning on or after 1 July 2011:

- Amendments to IFRS 1 **First-time Adoption of International Financial Reporting Standards** (not yet endorsed by the EU)

- Amendments to IFRS 7 **Financial Instruments: Disclosures** (not yet endorsed by the EU)

Effective for business years beginning on or after 1 January 2012:

- Amendments to IAS 12 **Income Taxes** (not yet endorsed by the EU)

Effective for business years beginning on or after 1 January 2013:

- IFRS 9 **Financial Instruments** (not yet endorsed by the EU)

Future implications – especially of IFRS 9 – are currently being analyzed. Management assumes that the expected changes will mainly affect measurement of financial assets and the presentation of changes in value of financial assets in the income statement and other comprehensive income respectively.

The amendments to the various standards concerning the presentation and measurement of financial instruments will be applied at the effective dates stated.

The other new or amended standards to be adopted from 1 January 2011 on do not cause any changes to the interim financial report of the Lenzing Group. There have been no changes since 31 December 2010 to either the other accounting and valuation policies applied or to the methods of calculation and presentation.

The following closing rates were used to translate the assets and liabilities of subsidiaries from their functional currency to the reporting currency:

Unit	Currency		Closing rate	
			31/03/2011	31/12/2010
1	EUR/USD	US Dollar	1.4229	1.3376
1	EUR/GBP	GB Pound	0.8843	0.8616
1	EUR/CZK	CZ Koruna	24.5330	25.0850
1	EUR/CNY	Renminbi Yuan	9.3126	8.8150
1	EUR/HKD	Hong Kong Dollar	11.0720	10.3965

Note 3. Changes in estimates

There were no changes in estimates of amounts which had been presented in previous (interim) reporting periods during the current reporting period which had any material effect on the current interim reporting period.

Interim Consolidated Financial Statements

Selected Explanatory Notes

Note 4. Scope of consolidation

On 19 January 2011 Beta LAG Holding GmbH was founded with the purpose of exercising holding functions.

As of 18 February 2011 the Group has sold the major part of the plastics filaments business to a consortium of private investors under the leadership of the Global Equity Partners Group (GEP) for further streamlining of the portfolio. GEP has acquired 100% of the shares of the two German companies Hahl Filaments GmbH/Munderkingen and Pedex GmbH/Affolterbach, of the US company Hahl Inc./Lexington and the Czech company Hahl Filaments s.r.o./Plana as well as the related real estate and holding companies. These entities were part of the segment Plastics Products.

Net result from the disposal of subsidiaries

	EUR mill.
Assets of discontinued operations	36.1
Liabilities of discontinued operations	(34.6)
Net assets of discontinued operations	**1.5**
Sales price	(1.5)
Net result	**0.0**

Due to the valuation of carrying amounts using the agreed sales price on 31 December 2010 there was neither a gain or loss nor an effect on earnings per share in the reporting period.

The payment of the sales price has been deferred until 2018 and the amount outstanding is included in other financial assets.

Therefore the number of consolidated entities has changed as follows:

	Full Consolidation	Equity consolidation
As at 1/1	**43**	**7**
Consolidated for the first time in reporting period	1	0
sold in reporting period	(8)	0
As at 31/3	**36**	**7**

Note 5. Segment reporting

Segment reporting in the Lenzing Group is based on business segments. For internal reporting to management the following business segments are used in the Lenzing Group:

Segment Fibers

The Segment Fibers comprises the Business Units Textile Fibers, Nonwoven Fibers, Pulp and Energy, as well as by-products and timber trade. This segment constitutes the core business of the Group.

Segment Plastics Products

The Segment Plastics Products produces special plastic products for processing companies. This segment comprises the Business Units Plastics and Filaments.

Segment Engineering

Segment Engineering (= Business Unit Engineering) is the technical competence center of the Group and consists of three business divisions:

- Engineering and Contracting
- Mechanical Construction and Industrial Services
- Automation and Mechatronics

Segment Other

The residual segment Other mainly comprises the disclosures of BZL-Bildungszentrum Lenzing GmbH, an educational activity of the Lenzing Group.

Segment sales	1-3/2011			1-3/2010		
	Sales to external customers	Inter-segment sales	Total sales	Sales to external customers	Inter-segment sales	Total sales
	EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.
Fibers	478.6	2.8	481.4	325.3	2.8	328.1
Plastics Products	44.3	0.6	44.9	32.4	0.4	32.8
Engineering	8.8	22.0	30.8	7.0	10.8	17.8
Other	0.4	0.3	0.7	0.3	0.4	0.7
Consolidation	0.0	(25.7)	(25.7)	0.0	(14.4)	(14.4)
Total sales						
Continuing operations	**532.1**	**0.0**	**532.1**	**365.0**	**0.0**	**365.0**
Discontinued operations*	9.4	0.0	9.4	12.6	0.0	12.6

*) Deconsolidation as of 28/02/2011

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Selected Explanatory Notes

Segment result	Segment result (EBIT)		Segment result (EBITDA)	
	1-3/2011	1-3/2010	1-3/2011	1-3/2010
	EUR mill.	EUR mill.	EUR mill.	EUR mill.
Fibers	86.9	47.2	109.7	66.4
Plastics Products	1.6	1.2	3.3	2.2
Engineering	2.2	1.1	2.6	1.4
Other	0.2	0.1	0.2	0.1
Consolidation	(0.2)	(0.2)	(0.9)	(0.8)
Segment result				
Continuing operations	**90.7**	**49.4**	**114.9**	**69.3**
Discontinued operations*	0.3	0.3	0.8	0.8

	Segment assets		Segment liabilities	
	31/03/2011	31/12/2010	31/03/2011	31/12/2010
	EUR mill.	EUR mill.	EUR mill.	EUR mill.
Fibers	1,464.4	1,424.1	495.1	429.5
Plastics Products	122.8	119.4	37.3	39.5
Engineering	41.9	43.5	28.4	25.6
Other	0.3	0.4	0.7	0.8
Consolidation	(38.4)	(32.7)	(17.8)	(14.3)
Segment assets/liabilities				
Continuing operations	**1,591.0**	**1,554.7**	**543.7**	**481.1**
Discontinued operations	0.0	36.1	0.0	34.6
Reconciliation	439.6	372.6	705.7	681.4
Total assets/liabilities	**2,030.6**	**1,963.4**	**1,249.4**	**1,197.1**

*) Deconsolidation as of 28/02/2011

Note 6. Sales

Due to increases in fiber shipments and selling prices for fiber and due to the consolidation of sales from the pulp producer Biocel Paskov, which was acquired in May of last year, total sales increased by 45.8% to EUR 532.1 mill. compared to the previous year. Sales by segment are presented in Note 5.

Note 7. Cost of material and purchased services

Cost of material and purchased services amounted to EUR 304.6 mill., which is an increase of 53.3% compared to the first quarter of 2010. This higher increase compared to the increase in sales results from a disproportionate development of pulp price for the fiber sites as well as from the first consolidation of Biocel Paskov.

Note 8. Personnel expenses

Personnel expenses of EUR 68.8 mill. (reference period 2010: EUR 63.3 mill.) include EUR 2.8 mill. (reference period 2010: EUR: 3.5 mill.) of expenses for severance payments and pensions.

Note 9. Amortization of intangible assets and depreciation of property, plant and equipment

Amortization of intangible assets and depreciation of property, plant and equipment of EUR 25.1 mill. (reference period 2010: EUR 20.7 mill.) exclusively comprises amortization/depreciation. The increase in comparison to the first quarter 2010 is mainly due to the start-up of production line four in Indonesia and the acquisition of Biocel Paskov.

Interim Consolidated Financial Statements

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Note 10. Other operating expenses

In addition to the increase in freight outward and commissions caused by a higher shipping volume, additional expenses from existing contractual relationships cause the overall increase of other operating expenses.

Note 11. Finance costs

Finance costs include interest and interest-like expenses of EUR 5.4 mill. (reference period 2010: EUR 3.7 mill.) and foreign exchange gains resulting from the revaluation of financial liabilities of EUR 0.2 mill. (reference period 2010: foreign exchange losses of EUR 0.2 mill.).

Note 12. Allocation of profit or loss to puttable non-controlling interests

The share of income attributable to other shareholders of Lenzing (Nanjing) Fibers Co., Ltd. and European Precursor GmbH respectively is recognized as an expense due to time limitations under corporate law.

Note 13. Income tax

Income tax is accrued per taxable entity on the basis of estimated average tax rates. Deferred tax assets arising from unused tax loss carry forwards are recognized only to the extent that the amount carried forward is likely to be used in the foreseeable future.

Note 14. Intangible assets and property, plant and equipment

During the reporting period the Lenzing Group invested EUR 41.9 mill. (first quarter in 2010: EUR 30.5 mill.) in intangible assets and property, plant and equipment. The investments mainly pertained to the construction of the production line III in Nanjing, the modification/extension of production of modal fiber and pulp at the site in Lenzing and the investments for reconstructions in Paskov.

Commitments from open purchase orders for property, plant and equipment as at 31 March 2011 amounted to EUR 81.6 mill. (31 December 2010: EUR 53.4 mill.).

Note 15. Inventories

Despite higher production volumes, inventories basically remained constant. There was no significant impairment to the net realizable value in 2011.

Note 16. Trade receivables

The increase in trade receivables by EUR 28.6 mill. since 31 December 2010 results from the high volume of fiber shipments in March 2011, which is the highest ever achieved in the Lenzing Group.

Note 17. Equity

The resolution passed by the general shareholders' meeting of 10 December 2010 authorizes the management board – together with the consent of the supervisory board – to increase common stock by a maximum amount of EUR 13,358,625.00 (equals 12,862,500 ordinary shares or 50% of common stock) within 5 years for contribution in cash or in kind ("authorized capital stock").

Furthermore, the management board has been authorized in the resolution passed by the general shareholders' meeting mentioned above to issue convertible bonds, which grant or intend a purchase right or exchange obligation respectively, for up to 12,862,500 ordinary shares (equals 50% of common stock) with the consent of the supervisory board until 9 December 2015 ("contingent capital").

These authorizations were not used in the interim reporting period.

Note 18. Bonds, bank loans and other loans

These financial liabilities (current and non-current) marginally increased to the amount of EUR 620.9 mill. compared to EUR 612.8 mill. as at 31 December 2010. Due to agreed dates of repayment the maturity changed which resulted in higher current liabilities.

Net financial debt was reduced from EUR 307.2 mill. to EUR 256.0 mill. whereas it has to be considered, that dividend payments in the amount of EUR 39.9 mill. were carried out on 1 April 2011.

Interim Consolidated Financial Statements

Selected Explanatory Notes

Note 19. Other provisions

Other current provisions mainly comprise provisions for services rendered but not invoiced, for measures of restoration, for increases of commodity prices, for additional expenses from existing contractual relationships and deferrals.

Note 20. Other liabilities

The increase in other current liabilities is mainly due to the dividend of the Lenzing AG with an amount of EUR 39.9 mill., which was determined in the general shareholders' meeting on 29 March 2011 and will be payable on 1 April 2011 and to the advances from customers which increased by an amount of EUR 6.4 mill. compared to 31 December 2010.

Note 21. Contingent liabilities and commitments

Contingent liabilities and commitments of the Lenzing Group developed as follows compared to the previous reporting date.

	31/03/2011	31/12/2010
	EUR mill.	EUR mill.
Assumption of liability for associated companies	1.7	3.3

Additionally, there are bank guarantees for liability escrow paid in the amount of EUR 5.4 mill. (31 December 2010: EUR 4.1 mill.). It is considered unlikely that the Group will be held liable as a result of these commitments.

Litigations

Various legal proceedings resulting from the ordinary course of business are pending. The management board assumes that these proceedings will not have material adverse effects on the present and future earnings of the Group.

Note 22. Notes on the cash flow statement

Compared to the first quarter of 2010 gross cash flow increased to EUR 89.7 mill. mainly due to the good profit situation. Cash flow from operations amounts to EUR 90.7 mill. in the first quarter of 2011.

Cash flow from investing activities in non-current assets mainly results from the investments of Lenzing AG, the expansion of Lenzing (Nanjing) Fibers Co, Ltd and the reconstruction of the pulp production facilities at Biocel Paskov.

Cash and cash equivalents include cash in hand, demand deposits and short-term deposits at banks. As at 31 December 2010, the Group held securities qualifying as cash equivalents, that is securities with a maturity of less than three months from the time of acquisition. These securities were sold during the reporting period.

Note 23. Agreed dividend

In the reporting period it was agreed on that the shareholders of the parent company will receive the following dividends:

	Total	Number of shares	Dividend per share
	EUR mill.		EUR
Dividend 2010 agreed in 2011 (paid 1 April 2011)	39.9	25,725,000	1.55
Dividend 2009 agreed in 2010 (annual shareholders‘ meeting 30 April 2010)	51.4	3,675,000	14.00

Subsidiaries paid EUR 0.1 mill. (first quarter 2010: EUR 0.0 mill.) of dividends to non-controlling interests in the first quarter of 2011.

Interim Consolidated Financial Statements

Selected Explanatory Notes

Note 24. Related party transactions

The group of related parties (companies and persons) did not change compared to the financial statements of 31 December 2010.

Scope and amount of significant business transactions as well as outstanding balances with associated companies are as follows:

	1-3/2011	1-3/2010
	EUR mill.	EUR mill.
Sales	16.1	12.7
Other operating income	0.4	0.2
Cost of material and purchased services	13.4	11.6
	31/03/2011	31/12/2010
Trade receivables incl. amounts due resulting from construction contracts	6.9	10.2
Liabilities	7.5	9.0

Note 25. Derivative financial instruments

In order to hedge currency exchange rate risk, the Lenzing Group makes use of foreign currency forward contracts which are measured at market value.

The market values of the instruments employed as at the reporting dates are as follows:

Fair Value Hedges

Type of derivative financial instrument	gain (+)/loss (-)	
	31/03/2011	31/12/2010
	EUR mill.	EUR mill.
Foreign currency forward contracts	**7.3**	**(0.7)**

Cashflow Hedges

Type of derivative financial instrument	gain (+)/loss (-)	
	31/03/2011	31/12/2010
	EUR mill.	EUR mill.
Foreign currency forward contracts	**7.7**	**3.1**

The hedges as at 31 March 2011 have maturities of up to 13 months.

The Group employs futures to hedge and manage raw material price risk (natural gas). As at 31 March 2011, these hedges have maturities of up to 33 months. Unrealized gains as at 31 March 2011 from the valuation of open futures or, respectively, the gain from the closing of contracts with delivery in the subsequent period amounted to EUR 1.5 mill. (31 December 2010: EUR 0.6 mill.) and are recognized directly in other comprehensive income.

Note 26. Events after the end of the interim reporting period

There were no material reportable events after the end of the interim reporting period.

Interim Consolidated Financial Statements

Selected Explanatory Notes

Note 27. Corporate bodies

Changes:

Members of the supervisory board

The general shareholders' meeting of 29 March 2011 newly elected Patrick Prügger to the supervisory board. Hermann Bell's seat on the supervisory board was not renewed at his own request.

The constitutive meeting of the new supervisory board held after the general shareholders' meeting elected Michael Junghans as chairman and Veit Sorger as deputy chairman of the supervisory board.

The changes in the supervisory board of Lenzing AG are summarized as follows:

Hermann Bell, Vienna
Chairman (until 29 March 2011)

Michael Junghans, Vienna
Deputy chairman (until 29 March 2011)
Chairman (from 29 March 2011)

Veit Sorger
Deputy chairman (from 29 March 2011)

Patrick Prügger
Member of the supervisory board (from 29 March 2011)

The condensed interim financial statements of the Lenzing Group at hand have been reviewed by Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna.

Lenzing, 10 May 2011

The Management Board:

Peter Untersperger

Friedrich Weninger

Thomas G. Winkler

Translation of the Report on the review of the interim condensed consolidated financial report

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of Lenzing AG, Lenzing, for the period from January 1, 2011 to March 31, 2011 including the condensed consolidated balance sheet as of March 31, 2011, the related income statement, statement of comprehensive income, condensed statement of cash flows and statement of changes in equity for the period from January 1, 2011 to March 31, 2011 as well as selected explanatory notes.

Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with International Financial Reporting Standards (IFRS) applicable on interim financial reporting, as adopted by the EU.

Our responsibility is to issue a report on the condensed consolidated interim financial statements based on our review.

The execution of this engagement and our responsibility, also in relation to third parties, shall be governed, as agreed by signing the engagement letter, by the general conditions of contract for the public accounting professions as issued by the Austrian Chamber of Public Accountants and Tax Advisors (AAB 2011) dated March 8, 2000 and February 21, 2011 respectively. Our liability for negligence is agreed to be limited to EUR 12 million. This total maximum liability cap may only be utilized up to its maximum amount even if there is more than one claimant or more than one claim has been asserted.

Scope of review

We conducted our review in accordance with applicable Austrian laws and professional standards (e.g. KFS/PG 11) and International Standard on Review Engagements (ISRE) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements do not present fairly, in all material respects, the financial position of Lenzing AG as of March 31, 2011 in accordance with IFRS applicable on interim financial reporting, as adopted by the EU.

Interim Consolidated Financial Statements

Translation of the Statement on the interim group management report

We have read the accompanying condensed interim group management report of Lenzing AG as of March 31, 2011 and assessed whether it contains any obvious contradictions to the condensed consolidated interim financial statements. Based on our review nothing has come to our attention that causes us to believe that the accompanying condensed interim group management report contains obvious contradictions to the condensed consolidated interim financial statements.

Vienna, May 10, 2011

Deloitte.

Deloitte Audit Wirtschaftsprüfungs GmbH

Harald Breit
Chartered Accountant

ppa. Christoph Hofer
Chartered Accountant

Declaration of the Management Board

Declaration of the Management Board pursuant to Section 87 para 1 subpara 3 of the Stock Exchange Act

We confirm to the best of our knowledge that the condensed interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the interim Group management report gives a true and fair view of important events that have occurred during the first three months of the financial year and their impact on the condensed interim financial statements, of the principal risks and uncertainties for the remaining nine months of the financial year and of the major related party transactions to be disclosed.

Lenzing, 10 May 2011

The Management Board:

Peter Untersperger
Chairman of the Board

Friedrich Weninger
Member of the Board

Thomas G. Winkler
Member of the Board

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