



Letter to  
Shareholders 03  
2005  
LENZING GROUP

World Leader in  
Cellulose Fiber Technology



[www.lenzing.com](http://www.lenzing.com)

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## Sales increase despite declining prices

Global fiber business activity continued to weaken. The development had set in during the second quarter, as reported, and it continued into the third quarter. Taking this into account, the Lenzing Group result has been satisfactory. Figures, however, are already below last year's values. Lenzing has been confronted with a strong rise in energy and raw material costs in the third quarter. Primary energy prices rose by 15% in the first three quarters of 2005 as compared to previous year's figures. This corresponds to an additional burden of about EUR 4.5 mill. Despite full capacity production at all sites and an enhanced product mix the erosion of margins continued, as prices failed to rise in step with costs. Lenzing will therefore successively implement the announced fiber price increases in the coming months.

## Lenzing Group

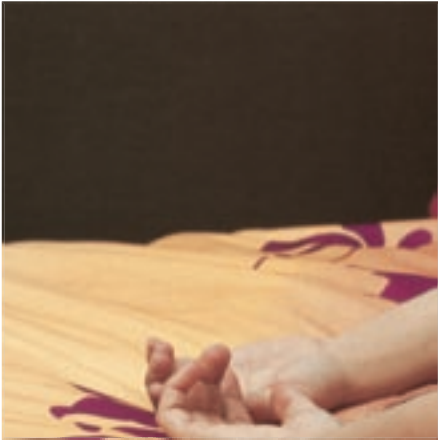
Consolidated sales of the Lenzing Group according to IFRS<sup>\*)</sup> increased by 9.4% to EUR 697.6 mill. for the first nine months of 2005 as compared to EUR 637.5 mill. Sales increased despite declining prices due to an increase in quantity and the full consolidation of the Tencel group for the whole reporting period.

Production costs were burdened by rising raw material prices, such as those for caustic soda, pulp, and increasingly wood. The main factor, however, was above average energy costs due to the rise of prices for oil and gas. The energy price increase affected each production site to a different degree. The impact on the Lenzing site was smaller, due to its lower share of fossil fuels employed.

The high level of EBITDA (income from operations before depreciation) was maintained at EUR 115.5 mill. (EUR 115.3 mill. for the first nine months of 2004), but EBIT (income from operations) declined by 8.9% to EUR 68.8 mill (EUR 75.5 mill). The financial result for the third quarter decreased and led to a decline of EBT (income before taxes) by 13.6% to EUR 67.4 mill. (EUR 78.0 mill.). Net income at EUR 50.8 mill (EUR 57.0 mill.) was 11.0% lower than in the first nine months of 2004. Nine-month earnings per share were EUR 12.96 (EUR 13.65).

The EBIT margin came to 9.9% for the first nine months of 2005 (11.9% for the reference period of 2004) and the EBITDA margin to 16.6% (18.1%), sustaining Lenzing's position as one of the strongest income performers in the fiber industry.

<sup>\*)</sup> This interim financial statement was prepared according to IFRS (International Financial Reporting Standards), using the same accounting policies and methods of computation as for the financial statements 2004 of the Lenzing Group.



Good sales quantity  
at weaker prices

Disturbances due to  
US hurricanes

Gross cash flow for the first nine months of 2005 improved by 1.7% to EUR 98.3 mill. (previously 96.6 mill.).

The balance sheet as of 30 September 2005 shows the equity ratio\*) at an unchanged high of 48.2% (48.5% as of 31 December 2004).

The Lenzing Group had a staff of 4,840 on 30/09/2005 (4,845 on 31/12/2004).

## The Fibers Sector

The decline of viscose fiber prices, that had set in at beginning of the year, continued. This year's prices reached their present annual low in the third quarter. The contributing factors were low cotton prices and the uncertainty of the Chinese textile industry with regard to their future European sales prospects. Price development in Indonesia was weak as well. The unsatisfactory development of previous years continued in Europe. Weak price development equally affected Business Unit Textile Fibers and Business Unit Nonwoven Fibers on a global basis.

Two European competitors (one in Russia and one in Serbia) shut down production, last but not least due to increased raw material prices and declining viscose fiber prices. An American competitor filed for chapter 11 bankruptcy protection and had to shut down production, at least temporarily.

In contrast, Lenzing operated at excellent capacity due to its good market position. Business Unit Textile Fibers achieved a new shipment record in September.

Hurricanes Katrina and Rita did not cause any damage to the plant in Mobile/Alabama. But the situation, temporarily approaching a state of chaos in the south of the USA, led to massive impairment of production. On the one hand, significantly higher prices had to be paid to ensure supply of natural gas. On the other hand, raw material supply and shipment of viscose fibers suffered from the complicated logistics situation, such as the closure of New Orleans port and insufficient availability of trucks and trailers. Production had to be cut back due to these factors.

\*) including investment plants less deferred taxes

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No change in  
unsatisfactory market situation

Good development despite rise  
in raw material prices

Gratifying booking of orders

Exploding energy costs and subsequent higher production costs and higher cargo rates confronted the Indonesian subsidiary South Pacific Viscose, particularly in the third quarter. Diesel prices doubled and gasoline prices trebled compared to the previous year.

Due to the global development of prices for raw materials and energy, Lenzing announced fiber price increases by at least five percent in September. These will be implemented in the fourth quarter and will bring at least partial relief by the first quarter of 2006.

## The Paper Sector

The third quarter of 2005 did not bring any change in the unsatisfactory market situation for wood-free specialty papers, either. Current operative cost optimization and a cost efficiency program agreed with staff will contribute to an improvement of the result situation. A recovery of the market, however, is not to be expected for the time being.

## The Plastics Sector

The sustained positive development of Lenzing Plastics continued in the first nine months of 2005. In the course of the year the enterprise was confronted with drastic price increases for all mineral oil based raw materials due to the rise in crude oil prices. The company has so far been able to pass on only part of this price increase to the customer. The demand for Lenzing artificial turf developed very well. Product groups for the construction industry achieved good results, opposing the market trend.

## The Systems Construction and Engineering Sector

Lenzing Technik again achieved a very good result in the first nine months of 2005, in keeping with last year's record result. The excellent development of order bookings in all sectors continues. It is equally supported by orders from within the Lenzing Group as well as by orders from external constituents.



## Miscellaneous

The Lenzing AG supervisory board reappointed Thomas Fahnemann as chairman of the management board. The current management board contract would have expired in the spring of 2006. The mandate for Mr. Fahnemann has been extended to the year 2011.

## Outlook

Cost pressure by raw material and energy prices will increase in the fourth quarter and in the first six months of 2006. It is not expected, even in the medium term, that the energy price situation will improve. For the Lenzing Group that means a structural change of production costs. The shift of demand away from traditional markets to Asia, in particular China, is another structural challenge. Lenzing will counter the changes in cost structure and the flow of commodities in time at all process levels and at all sites.

Lenzing will, moreover, implement urgently required price increases. These, however, will take effect only in 2006.

A slight recovery of quantity demand for fibers is to be expected for the remainder of the year. Competitive pressure, however, from Asian suppliers will increase for nonwoven and textile fibers on all markets.

The good development of Lenzing Technik will continue. General conditions for Lenzing Plastics will clearly become more difficult because of increased raw material prices. We expect a slight improvement for Lenzing Paper, due to cost efficiency measures.

Taking into account the significant decline of general conditions in the course of the current year, we expect the overall result for 2005 to be satisfactory. It will, however, not match the very good result of 2004.

**The Management Board**

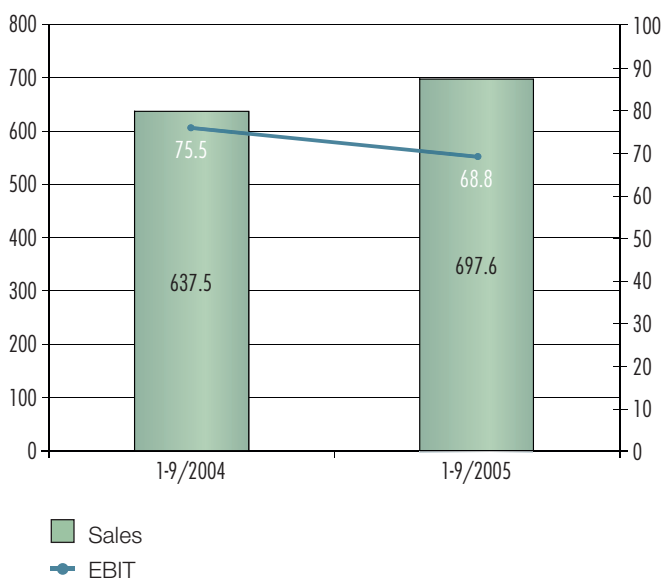
Lenzing, November 2005

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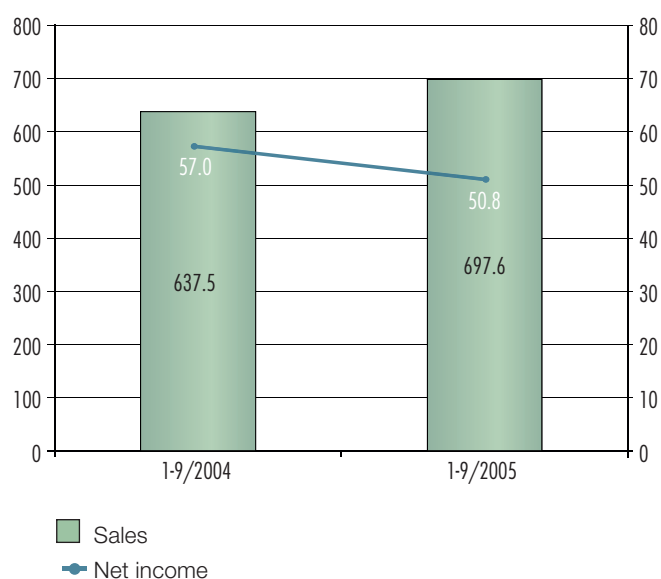
## Income Statement according to IFRS

	7-9/2005	7-9/2004	1-9/2005	1-9/2004
	EUR mill.	EUR mill.	EUR mill.	EUR mill.
Sales	233.2	230.2	697.6	637.5
Changes in inventories and capitalized cost of self-constructed assets	6.4	12.0	28.5	28.2
Other operating income	4.3	6.0	12.9	12.1
Cost of materials and purchased services	-130.0	-116.9	-385.8	-315.7
Personnel expenses	-52.2	-54.7	-156.2	-151.7
Amortization of intangible assets and depreciation of property, plant and equipment	-16.6	-15.5	-49.7	-42.9
Other operating expenses	-26.5	-33.6	-78.5	-92.0
<b>Income from operations (EBIT)</b>	<b>18.6</b>	<b>27.5</b>	<b>68.8</b>	<b>75.5</b>
Financial income and expenses	-2.5	4.6	-1.4	2.5
<b>Income before taxes (EBT)</b>	<b>16.1</b>	<b>32.1</b>	<b>67.4</b>	<b>78.0</b>
Taxes on income	-3.7	-8.6	-16.6	-21.0
<b>Net income</b>	<b>12.4</b>	<b>23.5</b>	<b>50.8</b>	<b>57.0</b>
Share of net income of shareholders of Lenzing AG	12.0	20.6	47.6	50.1
Share of net income of other shareholders of subsidiaries of Lenzing AG	0.4	2.9	3.2	6.9
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
<b>Earnings per share</b>	<b>3.28</b>	<b>5.60</b>	<b>12.96</b>	<b>13.65</b>

EBIT in EUR mill.



Net income in EUR mill.



## Balance Sheet according to IFRS

Assets	30/9/2005		31/12/2004	
	EUR mill.	in %	EUR mill.	in %
Intangible assets and property, plant and equipment	592.2	59.3	583.1	61.6
Financial assets	29.5	3.0	29.2	3.1
Other non-current assets	1.7	0.2	2.0	0.2
<b>Non-current assets</b>	<b>623.4</b>	<b>62.5</b>	<b>614.3</b>	<b>64.9</b>
Inventories	137.3	13.8	116.9	12.4
Receivables	161.7	16.2	155.1	16.4
Investments and cash and cash equivalents	75.7	7.5	59.6	6.3
<b>Current assets</b>	<b>374.7</b>	<b>37.5</b>	<b>331.6</b>	<b>35.1</b>
<b>Total assets</b>	<b>998.1</b>	<b>100.0</b>	<b>945.9</b>	<b>100.0</b>

Equity and liabilities				
<b>Equity</b>	<b>450.7</b>	<b>45.2</b>	<b>427.4</b>	<b>45.2</b>
<b>Public-sector investment grants</b>	<b>38.3</b>	<b>3.8</b>	<b>39.7</b>	<b>4.2</b>
Bank and other loans	230.0	23.0	197.0	20.8
Provisions	107.8	10.8	104.1	11.0
Liabilities	0.6	0.1	0.9	0.1
<b>Non-current liabilities</b>	<b>338.4</b>	<b>33.9</b>	<b>302.0</b>	<b>31.9</b>
Bank and other loans and overdrafts	34.0	3.5	42.3	4.5
Provisions	55.3	5.4	54.5	5.7
Liabilities	81.4	8.2	80.0	8.5
<b>Current liabilities</b>	<b>170.7</b>	<b>17.1</b>	<b>176.8</b>	<b>18.7</b>
<b>Total equity and liabilities</b>	<b>998.1</b>	<b>100.0</b>	<b>945.9</b>	<b>100.0</b>

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## Cash-flow Statement according to IFRS

	1-9/2005	1-9/2004
	EUR mill.	EUR mill.
Gross cash flow	98.3	96.6
Change in working capital	-26.0	-25.1
<b>Net cash from operating activities</b>	<b>72.3</b>	<b>71.5</b>
- Acquisitions of non-current assets	-48.4	-120.7
+ Proceeds from the disposal/redemption of non-current assets	1.8	3.5
<b>Net cash used in investing activities</b>	<b>-46.6</b>	<b>-117.2</b>
+ Paid in by other shareholders	1.5	0.0
- Dividends paid to shareholders	-32.0	-22.1
+/- Inflows and redemption of loans and overdrafts	18.7	15.9
<b>Net cash used in (-) provided by (+) financing activities</b>	<b>-11.8</b>	<b>-6.2</b>
<b>Net cash flow</b>	<b>13.9</b>	<b>-51.9</b>
Cash and cash equivalents at the beginning of the year	59.6	119.5
Currency difference relating to cash and cash equivalents	2.2	-0.0
<b>Cash and cash equivalents at the end of the period</b>	<b>75.7</b>	<b>67.6</b>

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