A sustainable company – with every fiber

LETTER TO SHAREHOLDERS 03/2009 of the Lenzing Group

LENZING
LEADING FIBER INNOVATION

www.lenzing.com

Letter to Shareholders

Third Quarter 2009

Dear Shareholder,

The Lenzing Group's positive business development of the second quarter continued into the third quarter, due to improving demand for cellulose fibers. The considerable impact of the global economic crisis, however, left a distinct mark on the company's first quarter figures and burdened the sales and results figures of the first nine months of 2009.

The Lenzing Group

Consolidated sales in the first nine months of 2009 declined by 10% from EUR 1,012.1 mill. (reference period 2008) to EUR 912.3 mill. This drop is mainly attributable to lower fiber production at the non-integrated sites in the first quarter, significantly weaker fiber prices and lower sales in segments Plastics and Engineering as a result of the state of the general economy. The quarter-to-quarter comparison, however, shows almost unchanged sales and EBIT figures. This indicates that business development has stabilized in the second quarter of the year.

Cost of material and purchased services declined by about 16% to EUR 511.4 mill. The difference of six percentage points between the decline of sales and cost is due to lower cost of energy and raw materials, as well as significant cost saving. Other operating cost fell from EUR 117.2 mill. to EUR 107.8 mill. Nine-month EBIT came to EUR 51.7 mill. (2008: EUR 107.1 mill.). The quarter-to-quarter comparison actually shows a slight improvement of EBIT from EUR 35.0 mill. to EUR 36.3 mill. Likewise, period net income improved to EUR 24.6 mill. (2008: EUR 16.0 mill.).

The nine-month financial result improved by 44% to minus EUR 10.4 mill. (2008: minus EUR 18.4 mill.) due to a positive foreign currency result. EBT therefore came to EUR 41.3 mill. (2008: EUR 88.7 mill.). Net income attributable to shareholders of Lenzing AG came to EUR 29.3 mill (2008: EUR 62.0 mill.) and earnings per share to EUR 7.98 (2008; EUR 16.86).

The nine-month EBIT margin came to 5.7% (2008: 10.6%) and the corresponding EBITDA margin to 11.9% (2008: 15.8%). The third-quarter EBIT margin of 11.3% (2008:10.9%) and the EBITDA margin of 17.1% (2008: 16.4%) are again on par with pre-crisis figures.

The Lenzing Group balance sheet of 30 September 2009 shows an increase in intangible assets and property, plant and equipment to EUR 922.9 mill. (31 December 2008: EUR 873.9 mill.), reflecting the major investments made at the site of PT. South Pacific Viscose (SPV) in Indonesia and at the Lenzing site in Upper Austria. The adjusted equity ratio* came to 41.2% (end of 2008: 42.7%) at a balance sheet total of EUR 1,426.0 mill. (2008: EUR 1,415.8 mill.).

The measures to reduce working capital taken at the beginning of 2009 resulted in trimmed stock inventories of EUR 165.1 mill. (end of 2008 EUR: 209.9 mill.) and a decrease in receivables.

Consistent liquidity management supplied the Group with cash and cash equivalents of EUR 117.5 mill. as at 30 September 2009 (30/09/2008: EUR 77.1 mill. and 31/12/08: EUR 105.8 mill). Moreover, Lenzing is provided with firmly committed and extensive credit lines.

Investment in property, plant and equipment and in intangible assets came to EUR 121.3 mill. (2008: EUR 108.9 mill.). The emphasis was on the construction of line 4 at PT. South Pacific Viscose. The extension of the Indonesian subsidiary will receive the major share of investment in 2009.

At the end of the third quarter of 2009 the Lenzing Group employed a staff of 5,881 (31/12/2008: 5,945). This decline is above all due to capacity adjustments in segment Plastics due to the general economic situation. During the same period PT. South Pacific Viscose hired 70 people for operating the new production line 4.

*) Equity including government grants less proportionate deferred taxes

Segment Fibers

The global collapse of the fiber market at the turn of the year was followed by a slight recovery of quantity demand with the beginning of the second quarter of 2009 which continued into the third quarter. The cotton price of 60 US cents per pound at the end of the third quarter was, however, still far below the 2008 peak price of more than 80 US cents. The situation for polyester prices was similar, they increased slightly due to risen crude oil prices. In July 2009 the Lenzing Group acquired 40% of the Indonesian fiber trading company PGL which has been in cooperation with Lenzing's Indonesian subsidiary PT. South Pacific Viscose (SPV) for many years. As PGL itself holds a 12% share in SPV Lenzing thereby raised its share in SPV from 86% to about 91%.

Business Units Textile Fibers and Nonwoven Fibers

By the end of the second quarter latest Lenzing was operating fiber production almost at full capacity at all sites. At the same time rising demand led to a significant reduction in stock. First price increases were accepted by the market. The recovery of pulp prices necessitated further price adaptations. Viscose fiber prices are still significantly below last year's levels. From the second quarter on, business unit Textile Fibers again managed to achieve very good sales results for standard fibers as well as for special fibers, such as Lenzing Modal®, flame retardant Lenzing FR® and TENCEL®. The production facilities for textile applications have been well utilized for many weeks now. Very strong regional demand has been noted in Asia and Brazil.

The development of business unit Nonwoven Fibers was characterized by a recent significant rise in demand for cellulose nonwovens products at slightly rising fiber prices. Fear of a new influenza wave, for example, led to increased demand for hygienic wipes and medical face masks. Disposable products, such as baby wipes, were very successful in the USA due to the natural origin of Lenzing fibers.

Segment Plastics

The business development of segment Plastics in the first nine months of 2009 was affected by the massive decline in demand in all markets due to the state of the general economy. The summer months brought first signs of recovery, in particular in the construction industry.

Lenzing reacted with capacity reduction and short-time work in Germany, as well as cost reduction and restructuring measures. Demand for special products, which had been less affected by the decline of the previous months, revived at the end of the third quarter.

Business unit Performance Products experienced rising demand for PTFE yarns for textile architecture and received positive market signals from the still depressed cable industry as well as for films, tapes and laminates. Third-quarter demand for the products of business unit Filaments, such as technical brushes, monofilaments and dental care products, recovered only insufficiently.

Segment Engineering

The business development of segment Engineering in the first nine months of 2009 was stable. The segment benefited in particular from last years' high order bookings and current intra-group investment projects. The last months gave indication that the industry postpones future investment and calls up past orders only with delay. Despite these declining trends affecting all business fields order bookings are still sufficient.

Outlook

Lenzing takes a cautiously positive view of its business development for the remainder of the year. All in all, the development of the 2009 fiber market has been better than expected. The positive trends in Asia, Turkey and South America may continue. There

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is, however, a danger of stock building up in the textile chain and any forecasts beyond the turn of the year are therefore uncertain. Moreover, anti-dumping procedures in Brazil and India are expected to significantly slow down sales of products containing Lenzing fibers.

The business development of segment Plastics is expected to be difficult, despite individual signs of recovery. Segment Engineering will feel the cautious order bookings of 2009 and will provide a clearly reduced result.

Taking into account the extremely weak market situation at the beginning of 2009, Lenzing nevertheless expects a positive result. It will, however, be impossible to compensate the first-quarter slump. The annual result is therefore expected to be significantly below that of 2008.

We will inform you about the further development of the Group along with the publication of the preliminary figures for business year 2009 in March 2010.

Lenzing, November 2009
The Management Board

Income Statement

According to IFRS	7-9/2009	7-9/2008	1-9/2009	1-9/2008
	EUR mill.	EUR mill.	EUR mill.	EUR mill.
Sales	322.4	322.6	912.3	1,012.1
Changes in inventories and work performed by the Group and capitalized	(2.4)	12.8	(10.6)	44.1
Other operating income	1.0	5.4	14.6	17.4
Cost of material and purchased services	(177.1)	(194.4)	(511.4)	(607.3)
Personnel expenses	(61.3)	(62.9)	(186.1)	(186.7)
Amortization of intangible assets and depreciation of property, plant and equipment	(19.8)	(18.6)	(59.3)	(55.3)
Other operating expenses	(26.5)	(29.9)	(107.8)	(117.2)
Income from operations (EBIT)	**36.3**	**35.0**	**51.7**	**107.1**
Financial income and expenses	(3.0)	(11.1)	(10.4)	(18.4)
Income before tax (EBT)	**33.3**	**23.9**	**41.3**	**88.7**
Income tax	(8.6)	(8.0)	(10.7)	(26.3)
Profit after taxes from continuing operations	**24.6**	**15.9**	**30.6**	**62.4**
Result from discontinued operations	0.0	0.1	0.0	0.4
Net income	**24.6**	**16.0**	**30.6**	**62.8**
Attributable to:				
Shareholders of Lenzing AG	22.3	17.8	29.3	62.0
Shareholders with non-controlling interests	2.3	(1.8)	1.3	0.8
	EUR	EUR	EUR	EUR
Earnings per share	**6.11**	**4.84**	**7.98**	**16.86**

Consolidated Financial Statements

Statement of financial position

According to IFRS	30/09/2009		31/12/2008	
Assets	EUR mill.	in %	EUR mill.	in %
Intangible assets	93.4	6.5	93.1	6.6
Property, plant and equipment	829.5	58.2	780.8	55.2
Financial assets	36.8	2.6	30.2	2.1
Other non-current assets incl. deferred tax assets	3.7	0.3	4.4	0.3
Non-current assets	**963.4**	**67.6**	**908.5**	**64.2**
Inventories	165.1	11.6	209.9	14.8
Trade and other receivables	180.0	12.6	191.6	13.5
Cash and cash equivalents	117.5	8.2	105.8	7.5
Current assets	**462.6**	**32.4**	**507.3**	**35.8**
	1,426.0	**100.0**	**1,415.8**	**100.0**
Equity and Liabilities				
Equity	**564.0**	**39.5**	**579.7**	**40.9**
Government grants	**29.4**	**2.1**	**31.7**	**2.2**
Bank loans and other loans	423.7	29.7	335.9	23.7
Provisions incl. deferred tax liabilities	126.0	8.8	122.9	8.8
Trade payables and other liabilities	7.5	0.5	7.0	0.5
Non-current liabilities	**557.2**	**39.0**	**465.8**	**33.0**
Bank loans and and other loans	56.3	4.0	135.3	9.5
Provisions for current income tax and other provisions	137.1	9.6	94.3	6.7
Trade payables and other liabilities	82.0	5.8	109.0	7.7
Current liabilities	**275.4**	**19.4**	**338.6**	**23.9**
	1,426.0	**100.0**	**1,415.8**	**100.0**

Cash Flow Statement

According to IFRS	1-9/2009	1-9/2008
	EUR mill.	EUR mill.
Gross cash flow	87.3	120.4
Change in working capital	82.3	(57.9)
Net cash generated by discontinued operations	0.0	0.9
Operating cash flow	**169.6**	**63.4**
- Acquisition of non-current assets	(130.3)	(109.2)
+ Proceeds from the disposal / repayment of non-current assets	5.9	0.9
+ Proceeds from the disposal of securities held as current assets	0.0	8.0
Net cash generated by discontinued operations	0.0	2.3
Net cash used in investing activities	**(124.4)**	**(98.0)**
+ Payments of other shareholders	3.8	2.7
- Dividends paid to shareholders	(51.5)	(53.0)
+ Receipts from financing activities	16.3	52.1
Net cash used in discontinued operations	0.0	(1.4)
Net cash provided by (+) / used in (-) financing activities	**(31.4)**	**0.4**
Change in cash and cash equivalents	**13.8**	**(34.2)**
Cash and cash equivalents at the beginning of the year	105.8	111.4
Currency translation adjustment relating to cash and cash equivalents	(2.1)	(0.1)
Cash and cash equivalents at the end of the reporting period	**117.5**	**77.1**

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