A sustainable company – with every fiber

LETTER TO SHAREHOLDERS 01/2009 of the Lenzing Group

LENZING
LEADING FIBER INNOVATION

www.lenzing.com

Letter to Shareholders

First Quarter 2009

Dear Shareholder,

The Lenzing group looks back on a difficult first quarter 2009. The decline of the global economy, triggered by the financial crisis, has massively affected the world fiber industry, too. The sales and results figures of the Lenzing Group reflect this process.

Lenzing Group

In comparison to the excellent result of last year's first quarter, consolidated quarterly sales dropped by 18.1%, from EUR 346.8 mill. to EUR 284.0 mill. The dramatic collapse of fiber prices, particularly in Asia, and lower quantity sales were the main reason for this development. The fiber prices of the first quarter 2008 had been above the annual average, the decline is therefore particularly pronounced: compared to the fourth quarter of 2008 sales only dropped by about 10%.

Cost of material and purchased services declined by 15.1% to EUR 167.6 mill. The difference of three percent points in the development of sales and cost of material highlights the fact that individual raw material prices persisted at their high levels and thereby put additional pressure on margins. Other operating expenses declined from EUR 51.7 mill. to EUR 39.6 mill. First quarter EBIT came to minus EUR 1.9 mill. (2008: plus EUR 42.1 mill.).

Increased interest expenses as a consequence of the financial crisis and highly volatile currency markets resulted in a financial result of minus EUR 4.6 mill (2008: minus EUR 3.6 mill.) and EBT of minus EUR 6.5 mill. (2008: plus EUR 38.5 mill.) and a net loss attributable to the shareholders of Lenzing AG of EUR 3.6 mill. (2008: net attributable income EUR 26.5 mill.). Earnings per share fell to minus EUR 0.98 (2008: plus EUR 7.22).

The period EBIT margin came to minus 0.7% (2008: 12.1%) and the EBITDA margin to 6.0% (2008: 17.2%).

The Lenzing Group balance sheet as of 31 March 2009 shows increased intangible assets and property, plant and equipment of EUR 905.5 mill. (31 December 2008: EUR 873.9 mill.). Equity improved slightly to EUR 583.5 mill. (end of 2008: EUR 579.7 mill.). This corresponds to an adjusted equity ratio* of 42.5% (end of 2008: 42.7%) of the balance sheet total of EUR 1.432 bill. (2008: EUR 1.416 bill.).

Solid balance sheet development is reflected in improved working capital management data: cash and cash equivalents at the end of the quarter came to EUR 87.3 mill.. Moreover, Lenzing has affirmed and available credit lines of over EUR 270 mill. (31 December 2008: EUR 248 mill.). Stock was sucessfully reduced to EUR 197.6 mill. (end of 2008: EUR 209.9 mill.).

Period investment in property, plant and equipment and intangible assets came to EUR 40.0 mill (2008: EUR 28.3 mill.) with the emphasis on the construction of production line 4 at PT. South Pacific Viscose in Indonesia which will account for the major part of investment in 2009.

The Group at the reporting date, 31 March 2009, employed a staff of 5,824 (31 December 2008: 5,945). The decline is mainly attributable to structural changes in Segment Plastics.

Segment Fibers

After the dramatic decline of the global fiber economy at the end of 2008, the business of the first months of 2009 had to witness a further pronounced cooling. Cotton prices, an important indicator of global fiber price development, declined further. Prices tentatively firmed at the extremely low level of 53 US cents per pound after an annual 2008 high of over 80 US cents, corresponding to

*) Equity including government grants less proportionate deferred taxes

a decrease in cotton prices of about 35%. Polyester fiber prices followed the general downward trend in the wake of the negative global economic development.

Business Units Textile Fibers and Nonwoven Fibers

Due to the difficult market situation Lenzing's production capacity had to be adjusted to market demand, in particular in Asia, with the turn of the year. Full production shut-down, as implemented by some competitors, was not considered an option, however. Lenzing is a reliable partner for Asia and is committed to delivery reliability even in difficult times. The goal for the fully integrated Lenzing site with its focus on fiber specialties is to ensure the highest possible degree of capacity utilization.

The fact that prices for important raw materials, such as for caustic soda, rose slightly against the general trend was another burden. The decline in pulp prices could not yet be turned into business advantage, due to stock bought at the higher prices of 2008.

Business Unit Textile Fibers had to experience a dramatic decline in prices in the first weeks of 2009. Particularly in Asia prices for standard fibers dropped at unprecedented speed. Special fibers, such as Lenzing Modal® and Lenzing FR® were less affected by the market's general weakness. The general fiber price level and quantity demand showed tentative signs of consolidation by the end of the first quarter.

Business Unit Nonwoven Fibers reported slightly rising sales volumes after a steep decline in December. Here too, however, the price level is very low. The clear and decided stand of the Lenzing Group on the issue of sustainability and the positive properties of its products were well received by all markets. The natural origin of Lenzing fibers made from the renewable raw material wood has become a sales proposition of increasing force, in particular for the disposable products of the nonwovens industry.

Segment Plastics

Segment Plastics was considerably affected by the general decline of the European economy, despite lower raw material prices. Prices and quantity showed a double-digit percentage decline. The segment immediately adapted production to the difficult market situation. Short work hours had to be introduced at some German sites. The US demand for special products, on the other hand, remained stable.

Business Unit Performance Products reported lower sales volumes, in particular for products for the currently weak construction industry. Business Unit Filaments was affected by the global decline of the economy, too. The industrial sector with bristles for technical applications as well as the domestic sector had to report significant decline in demand. Sales of high-quality Dolan products, such as fibers for convertible car tops and outdoor applications (seat and rest cushions) plainly did not develop as planned. Optimization of production at all sites, restructuring measures and shifting of production to the Czech site at Plana are already beginning to take first positive effect.

Segment Engineering

The business development of Segment Engineering continued to be stable. Order bookings are slightly depressed but the overall level is satisfactory and liquidity is good.

General shareholders' meeting

The general shareholders' meeting of Lenzing AG on 23 April 2009 resolved to pay an unchanged dividend of EUR 14.00 per share for business year 2008. Lenzing is committed to continuity in dividends. Moreover, the management board was authorized

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to buy treasury shares of up to a total of 5% of the share capital in accordance with section 65, paragraph 1 Z 8 of the Austrian Joint Stock Companies Act (AktG). The minimum and maximum share price for the purchase were defined as EUR 90.00 and EUR 300.00, respectively. Newly elected to the supervisory board were Josef Krenner as the representative of the state of Upper Austria, as well as Helmut Bernkopf. Horst Bednar resigned as member. The shareholder representatives of the current supervisory board therefore are: Hermann Bell (chairman), Winfried Braumann (deputy chairman), Walter Lederer, Martin Payer, Andreas Schmidradner, Veit Sorger, Josef Krenner and Helmut Bernkopf.

Outlook

The global recession already left a very clear mark on the fourth quarter 2008 and in particular on the month of December. The very negative trend has become even more pronounced with the beginning of year 2009. Domestic demand in western industrialized nations remains weak. The year 2009 will be a difficult and volatile business year for the Lenzing Group. There are first signs of quantity demand in business sector fibers firming up. There is, however, no indication to which extent this will lead to sustainable stabilization. Prices remain at absolutely unsatisfactory levels and margins are depressed. The global market situation remains uncertain, highly volatile and currently unpredictable.

As unsatisfactory is the situation for Segment Plastics. The recent easing of raw material prices and the expected comprehensive spending by the public sector may have positive impact on the construction industry and by implication the business development of Lenzing Plastics. Due to good order bookings, Segment Engineering expects a stable development of its business.

The Lenzing Group will pursue its strategy of differentiation. We will maintain our position as a solid and reliable supplier and partner, a fact that is very much appreciated by customers and currently gains market share for Lenzing fibers. It is the Group's goal to adjust production capacity to demand in an optimized manner which will ensure maximum flexibility.

Further cost optimization and savings potential in the double-digit million euro range will be realized in all business units and at all sites, in production as well as in sales and administration. A hiring freeze has been imposed across all corporate centers and business units. The budget framework for product development and innovation, however, has been slightly widened. Lenzing Plastics presses ahead with the optimization of its products.

Business development is expected to recover slightly at a low level with the end of the second half-year 2009, provided the global economy becomes less volatile and provided that the perceptible stabilization of demand will endure throughout the summer months. We will keep you informed on the further development of our business with the publication of our half-year results.

Lenzing, May 2009
The Management Board

Income Statement

According to IFRS	1-3/2009	1-3/2008
	EUR mill.	EUR mill.
Sales	284.0	346.8
Changes in inventories and work performed by the Group and capitalized	(3.8)	16.2
Other operating income	8.4	7.8
Cost of material and purchased services	(167.6)	(197.3)
Personnel expenses	(63.6)	(61.4)
Amortization of intangible assets and depreciation of property, plant and equipment	(19.7)	(18.3)
Other operating expenses	(39.6)	(51.7)
Income from operations (EBIT)	**(1.9)**	**42.1**
Financial income and expenses	(4.6)	(3.6)
Income before taxes (EBT)	**(6.5)**	**38.5**
Income taxes	1.1	(10.2)
Profit after taxes from continuing operations	**(5.4)**	**28.3**
Result from discontinued operations	0.0	0.3
Net income/loss	**(5.4)**	**28.6**
Attributable to:		
Shareholders of Lenzing AG	(3.6)	26.5
Shareholders with non-controlling interests	(1.8)	2.1
	EUR	EUR
Earnings per share	**(0.98)**	**7.22**

Consolidated Financial Statements

Statement of financial position

According to IFRS	31/03/2009		31/12/2008	
Assets	EUR mill.	in %	EUR mill.	in %
Intangible assets	97.5	6.8	93.1	6.6
Property, plant and equipment	808.0	56.4	780.8	55.2
Financial assets	28.5	2.0	30.2	2.1
Other non-current assets incl. deferred tax assets	4.3	0.3	4.4	0.3
Non-current assets	**938.3**	**65.5**	**908.5**	**64.2**
Inventories	197.6	13.8	209.9	14.8
Trade and other receivables	201.4	14.1	191.6	13.5
Investments	7.4	0.5	-	-
Cash and cash equivalents	87.3	6.1	105.8	7.5
Current assets	**493.7**	**34.5**	**507.3**	**35.8**
	1,432.0	100.0	1,415.8	100.0
Equity and Liabilities				
Equity	**583.5**	**40.7**	**579.7**	**40.9**
Government grants	**32.4**	**2.3**	**31.7**	**2.2**
Bank loans and other loans	352.4	24.6	335.9	23.7
Provisions incl. deferred tax liabilities	123.1	8.6	122.9	8.7
Trade payables and other liabilities	7.6	0.5	7.0	0.5
Non-current liabilities	**483.1**	**33.7**	**465.8**	**32.9**
Bank loans and and other loans	108.2	7.6	135.3	9.5
Provisions for current income tax and other provisions	101.1	7.1	94.3	6.7
Trade payables and other liabilities	123.7	8.6	109.0	7.7
Current liabilities	**333.0**	**23.3**	**338.6**	**23.9**
	1,432.0	100.0	1,415.8	100.0

Cash Flow Statement

According to IFRS	1-3/2009	1-3/2008
	EUR mill.	EUR mill.
Gross cash flow	12.6	40.1
Change in working capital	24.5	(25.9)
Net cash generated by discontinued operations	0.0	0.9
Operating cash flow	**37.1**	**15.1**
- Acquisition of non-current assets	(40.1)	(28.4)
+ Acquisition of securities held as current assets	(7.4)	0.0
+ Proceeds from the disposal/repayment of non-current assets	3.0	0.5
+ Proceeds from the disposal of securities held as current assets	0.0	8.1
Net cash generated by discontinued operations	0.0	2.5
Net cash used in investing activities	**(44.5)**	**(17.3)**
+ Payments of other shareholders	1.0	1.0
- Dividends paid to shareholders	0.0	(0.3)
+ Receipts from financing activities/- repayment of loans	(13.6)	12.8
Net cash used in discontinued operations	0.0	(1.4)
Net cash provided by (+)/used in (-) financing activities	**(12.6)**	**12.1**
Change in cash and cash equivalents	**(20.0)**	**9.9**
Cash and cash equivalents at the beginning of the year	105.8	111.4
Currency translation adjustment relating to cash and cash equivalents	1.5	(2.8)
Cash and cash equivalents at the end of the reporting period	**87.3**	**118.5**

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