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LENZING
LEADING FIBER INNOVATION

Letter to Shareholders

Third Quarter 2010

Dear Shareholder,

The third quarter of 2010 provided the Lenzing Group with sales and results which further improved the very good development of the two preceding quarters. EBIT of EUR 60.8 mill. delivered the best quarterly result in the company's history. It was brought about by the development of core business cellulose fibers which was significantly better than assumed still at mid year and triggered by the changing structural situation of the cotton market. This development was notable in both business unit Textile Fibers and Nonwovens. It was carried by a sustainable and rising excess in demand in all important fiber markets.

The Lenzing Group

Consolidated sales of the first nine months of 2010 grew by 45.2% from EUR 885.0 mill. to EUR 1,285.5 mill. compared to previous year's reference figures. This considerable rise was caused by significantly increased shipments, the improved level of fiber prices, the significantly improved global economic situation and the fiber boom in Asia. In the first nine months of 2010 fiber prices were, however, still below those before the economic and financial crisis of 2007/2008, due to an expected slight slump in prices and quantity sold in the months of July and August. In addition, the pulp factory Paskov was fully consolidated from May 2010 on. Excluding this acquisition, sales grew by 37.7%.

Cost of material and purchased services rose by 52.3% which is more than the rise in sales, due to significantly higher prices for pulp, wood and some chemicals. The rise in personnel expenses is a result of collective bargaining agreements and increased staff as a consequence of the acquisition of Paskov (Czech Republic) and capacity expansion in Indonesia and China.

The dynamic expansion of sales all in all improved the cover of fixed costs and resulted in better margins. The increase in raw material prices, however, could be passed on to the market only in part. Further adaptations are planned for the fourth quarter. EBIT nevertheless climbed to a new nine-month record high of EUR 168.8 mill. and more than tripled previous year's nine-month EBIT of EUR 54.3 mill. Nine-month EBITDA of EUR 233.6 mill. had never been this high either. The nine-month EBIDTA margin reached a peak of 18.2% (reference period 2009: 12.4%) and the EBIT margin more than doubled from 6.1% to 13.1%.

The 2010 third-quarter EBIT improved from EUR 37.3 mill. in the 2009 reference period to EUR 60.8 mill. and EBITDA from EUR 55.8 mill. to EUR 83.6 mill.

The financial result of the first nine months improved to minus EUR 7.8 mill. (reference period 2009: minus EUR 9.9 mill.), despite currently high investment activity as a result of favorable interest rates on external finance at a net debt of EUR 320.1 mill. as at 30/09/2010 (end of half year 2010: EUR 391.7 mill.). As a result, EBT almost quadrupled from EUR 44.4 mill. to EUR 161.0 mill. The period net income came to EUR 128.0 mill. (reference period 2009: EUR 30.6 mill.) corresponding to period earnings per share of EUR 31.60 (reference period 2009: EUR 7.98).

The Lenzing Group continues its growth strategy with expansion projects in Indonesia, China, Lenzing and Heiligenkreuz with almost unchanged investment in property, plant and

Best quarterly result in the company´s history.

equipment and intangible assets of EUR 118.2 mill. (reference period 2009: EUR 120.1 mill.). Property plant and equipment at the end of September 2010 came to EUR 960.9 mill. (balance sheet date 31/12/2009: EUR 841.7 mill.), taking into consideration the property, plant and equipment of the acquisition of Paskov of EUR 75.4 mill. The increase in current assets was kept significantly below the increase in sales.

Segment Fibers

The first five months of the year were characterized by signs of overheating and were followed by an expected decline in demand. As expected this period was succeeded by a strong and quick revival of demand for cellulose fibers setting in at the middle of the third quarter in important sales markets, such as China, Indonesia, India and Turkey. Due to the large-scale floods in Pakistan and India the global fiber market had to expect a dramatic physical shortage of cotton which triggered another significant increase in cotton prices. These climbed from an already considerable 75 US cents per pound at mid year 2010 to over 166 US cents per pound. This reflects the current tight market situation of this important textile reference price which has already climbed to a 15-year peak. Comparatively high crude oil prices caused a rise in the price of polyester as well.

The calamitous weather situation in Pakistan and its possible connection to global climate change have led to rethinking. Global cotton production is stagnating and facing strong competition from more profitable crops, such as soya bean and special grain crops for bio-fuels and animal feed. As a consequence, cotton as a highly volatile and ecologically sensitive agricultural product will in the future be viewed with ever increasing doubt concerning the crop's pricing and availability. This subsequently provoked a reorientation of many spinneries and decision makers throughout the whole supply chain, as well as consumers. An additional factor is the steady rise in demand by the emerging markets due to increasing prosperity and population growth. Market analysts therefore expect a structural change of the global fiber market which should strongly benefit cellulose man-made fibers, such as viscose, modal and TENCEL® in the medium and long term.

The strong demand for fibers caused a significant rise in the price of dissolving pulp towards the end of the third quarter. Spot market prices have already reached 1,700 USD per metric ton and even prices of 2,000 USD per metric ton for fourth-quarter delivery have been paid.

Business units Textile Fibers and Nonwoven Fibers

All fiber production sites of the Lenzing Group were fully utilized in the third quarter as well and partly achieved new records in production and shipment. The increase in raw material prices was largely, but not fully passed on to the market. In the interest of long-term and solid customer relationships Lenzing did not transfer the latest booming of the cotton price onto Lenzing's products one-to-one. Customers appreciated this policy but it further fueled demand for Lenzing fibers.

Lenzing secured the pulp supply for fiber production in the third quarter as well, with pulp from its own production at the integrated Lenzing site and through long-term contracts. The newly acquired pulp factory Paskov developed well, although climbing wood prices which depressed margins had to be registered. The conversion to a swing capacity site (paper pulp and dissolving pulp) is being advanced efficiently.

Business unit Textile Fibers recorded continuing and very strong demand for standard fibers and its special fibers, Lenzing Modal® and TENCEL®, as well as Lenzing FR®. Production at the new fourth line at Lenzing's Indonesian subsidiary PT. South Pacific Viscose (started up in the spring of 2010) developed very well and the output was fully sold, too. The development of business unit Nonwoven Fibers was characterized by strong market demand from all market segments and by major success with TENCEL® for special wipes.

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Demand for Lenzing fibers by region was strongest in Asia, with the business in Europe, the USA and South America showing recent stable development at a high level.

The ongoing capacity expansion programs at almost all fiber production sites will relieve the demand-driven pressure on production in the course of 2011/12 to a certain extent. Work on the new viscose fiber production site in India is in progress and real estate for plant construction has been secured.

Segment Plastics Products

The return to stable conditions in the important sales markets of segment Plastics Products and the cost efficiency measures implemented in the first nine months of 2010 significantly improved quantity demand and the development of results as compared to the very difficult year 2009. Thermoplastics sales of business of Unit Plastics developed well, despite high raw material prices. The PTFE business continued to lag behind in some business fields. Business unit Filaments, showed improved and again fully positive sales and results. Mentionable in particular is the strong demand for spun-dyed acrylic fibers. Production will be slightly raised in order to meet demand. The sales proceedings concerning parts of business units filament which had been announced at mid year have not been concluded yet.

Segment Engineering

The development of segment Engineering in the first nine months of 2010 was gratifying. Determining factors were the high rate of utilization due to intra-group capacity expansion but also the general recovery of the market for fiber and environmental technology. Order bookings have doubled and both the results and order situation are satisfactory.

*) PTFE: polytetrafluoroethylene

Successful Lenzing Bond Issue

After the conversion bond issue of 1994/2001 Lenzing in September 2010 for the first time issued a seven-year bond with a coupon rate of 3.875% at a volume of EUR 120 mill. The placement was four times oversubscribed. Due to the strong demand from Austrian private investors, about 75% of the issue were allocated to private investors.

One essential goal of the bond issue was to diversify the company's creditor base and financing structure on the external financing side.

Lenzing will use the additional cash inflow for optimizing the company's current financing portfolio and for strengthening its financial power, for refinancing existing financial liabilities, as well as for financing new projects, such as developing and extending established business activities.

Outlook

The fourth quarter, too, is expected to show a dynamic development of the market and of excellent results in its core business fibers. Lenzing's fourth-quarter fiber capacity has been largely sold already. Due to the continuing high of cotton prices and great demand for cellulose fibers, renowned textile retailers have announced necessary price adaptations. These will have a positive effect on all the links of the textile value chain.

The tight market situation very clearly highlights the additional market opportunities for man-made cellulose fibers in textiles as well as nonwovens.

Lenzing will continue its long-term and fair pricing policy of the recent months and years, even under the given positive framework conditions. A product mix further improved by favoring special fibers with attractive margins, increased fiber and pulp production capacity and a very good internal cost structure allow the expectation that business year 2010, despite the tight raw material price situation, will provide a new record result for the Lenzing Group.

Lenzing, November 2010

The Management Board

Letter to Shareholders

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Income statement

According to IFRS	7-9/2010	7-9/2009*	1-9/2010	1-9/2009*
	EUR mill.	EUR mill.	EUR mill.	EUR mill.
Continuing operations				
Sales	464.1	313.7	1,285.5	885.0
Changes in inventories and work performed by the Group and capitalized	7.4	(1.7)	21.4	(9.2)
Other operating income	8.3	0.7	24.8	14.4
Cost of material and purchased services	(282.7)	(172.7)	(757.9)	(497.6)
Personnel expenses	(65.7)	(58.0)	(191.9)	(176.2)
Amortization on intangible assets and depreciation of property, plant and equipment	(23.6)	(19.3)	(67.5)	(57.9)
Other operating expenses	(47.0)	(25.4)	(145.6)	(104.2)
Income from operations (EBIT)	**60.8**	**37.3**	**168.8**	**54.3**
Financial income and expenses	(4.4)	(2.8)	(7.8)	(9.9)
Income before tax (EBT)	**56.4**	**34.5**	**161.0**	**44.4**
Income tax	(9.0)	(8.7)	(33.4)	(10.8)
Profit after taxes from continuing operations	**47.4**	**25.8**	**127.6**	**33.6**
Discontinued operations				
Profit / loss from discontinued operations	0.2	(1.0)	0.4	(3.0)
Net income	**47.6**	**24.8**	**128.0**	**30.6**
Attributable to:				
Shareholders of Lenzing AG	43.3	22.6	116.1	29.3
Shareholders with non-controlling interests	4.3	2.2	11.9	1.3
Earnings per share	EUR	EUR	EUR	EUR
Continuing and discontinued operations	11.78	6.14	31.60	7.98
Continuing operations	11.73	6.42	31.48	8.83

*) adjusted figures related to discontinued operations

Statement of financial position

According to IFRS	30/09/2010		31/12/2009	
Assets	EUR mill.	in %	EUR mill.	in %
Intangible assets	99.4	5.2	88.0	6.1
Property, plant and equipment	960.9	50.7	841.7	58.2
Financial assets	53.5	2.8	42.2	2.9
Other non-current assets incl. deferred tax assets	3.2	0.2	5.2	0.4
Non-current assets	**1,117.0**	**59.0**	**977.1**	**67.5**
Inventories	203.2	10.7	175.6	12.1
Trade and other receivables	236.7	12.5	169.2	11.7
Investments	0.0	0.0	19.9	1.4
Cash and cash equivalents	301.9	15.9	105.4	7.3
Assets of discontinued operations	35.6	1.9	0.0	0.0
Current assets	**777.4**	**41.0**	**470.1**	**32.5**
	1,894.4	100.0	1,447.2	100.0
Equity and Liabilities				
Equity	**732.2**	**38.6**	**606.1**	**41.9**
Government grants	**29.7**	**1.6**	**29.3**	**2.0**
Bank loans and other loans	560.4	29.6	400.3	27.7
Provisions incl. deferred tax liabilities	129.5	6.8	123.2	8.5
Trade payables and other liabilities	3.1	0.2	6.7	0.5
Non-current liabilities	**693.0**	**36.6**	**530.2**	**36.6**
Bank loans and other loans	61.6	3.3	40.7	2.8
Provisions for current income tax and other provisions	187.1	9.9	119.4	8.3
Deferred taxes	163.2	8.6	121.5	8.4
Liabilities of discontinued operations	27.6	1.5	0.0	0.0
Current liabilities	**439.5**	**23.2**	**281.6**	**19.5**
	1,894.4	100.0	1,447.2	100.0

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Cash Flow Statement

According to IFRS	1-9/2010	1-9/2009 *
	EUR mill.	EUR mill.
Gross cash flow		
Continuing operations	194.2	87.3
Discontinued operations	1.5	(1.7)
Change in working capital	30.2	82.2
+/- Net cash used in discontinued operations	(2.1)	1.7
Operating cash flow	**223.8**	**169.5**
- Acquisition of non-current assets	(168.8)	(129.1)
+ Proceeds from disposal / repayment of non-current assets	0.9	5.1
+/- Net cash used in discontinued operations	(1.0)	(0.4)
Net cash used in investing activities	**(168.9)**	**(124.4)**
+ Payments of non-controlling interests	3.2	3.8
- Dividends paid to shareholders	(51.5)	(51.5)
+ Receipts from financing activities	166.8	16.0
+/- Net cash from discontinued operations	0.6	0.3
Net cash provided by (+)/used in (-) financing activities	**119.1**	**(31.4)**
Change in cash in discontinued operations	1.0	0.2
Change in cash and cash equivalents continuing operations	**175.0**	**13.9**
Cash continuing operations at the beginning of the period	123.9	105.0
Currency translation adjustment relating to cash and cash equivalents	3.0	(2.1)
Cash and cash equivalents continuing operations at the end of the period	301.9	116.8

*) adjusted figures related to discontinued operations

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