



Lenzing Group

LETTER TO SHAREHOLDERS

FIRST QUARTER

2006



The start of business year 2006 was marked by the stabilization of economic conditions in the global fiber business. Quantity demand picked up significantly, especially in the textile sector. The recent heavy decline of business volume in Europe stopped and stabilization at a lower level has set in. The global textile market is again receptive and stock levels are comparatively low. Energy and raw material prices, especially for pulp, are still rising and continue to put a strain on results. Lenzing has implemented price increases adjusted by fiber type at the start of the second quarter for this reason. The average rate of increase is three percent. Fiber prices had already been increased at the start of 2006 for cost reasons by five percent and more.

LENZING GROUP

STRONG SALES INCREASE, GOOD VISCOSE FIBER DEMAND

Consolidated sales of the Lenzing Group went up by 11.8% to EUR 261.2 mill. for the first quarter of 2006 (compared to EUR 233.8 mill. for the reference period of 2005). This strong increase is due to significantly higher production at all sites of the fiber core business. The development of raw material and energy prices caused an increase in the cost of materials by 13.7%. This rise was significantly higher than that in sales. EBIT correspondingly declined to EUR 22.8 mill. (reference period 2005: EUR 27.4 mill.) The relative decline of 16.6% merely highlights the best-ever quarterly performance of the 2005 reference period in company history. The net income for the first quarter was EUR 14.1. mill. (reference period 2005: EUR 20.5 mill.). The decline was caused, among other factors, by the weaker financial result of minus EUR 3.2 mill. (reference period 2005: minus EUR 0.1 mill.).

The EBIT margin for the first quarter of 2006 was at 8.8% (reference period 2005: 11.7% and all of 2005: 8.7%). The corresponding EBITDA margin was 14.8% (reference period 2005: 18.4% and all of 2005: 15.0%).

The period balance sheet as at 31 March 2006 shows equity of EUR 468.4 mill. (31 December 2005: EUR 455.5 mill.). The equity ratio correspondingly improved to 49.0% (31 December 2005: 48.0%). Net debt at the end of the first quarter of 2006 was reduced to EUR 141.3 mill. (down from EUR 169.0 mill. as at 31 December 2005).

The Lenzing Group at the end of the quarter employed a staff of 4,870 (31 December 2005: 4,860).

SECTOR FIBERS

FAVORABLE TREND FOR VISCOSE

Sector Fibers looks back on a good first quarter. Cotton prices recovered slightly from their low at the middle of 2005. Polyester fiber prices, however, declined due to overcapacity especially in Asia.

Prices for key raw materials are still going up, in particular pulp prices. The fiber production sites had to face high energy prices in addition, especially the sites operating on natural gas in Great Britain and the USA, as well as Heiligenkreuz in Austria.

Textile fiber demand stabilized, stopping last year's downward trend. The first quarter saw new fiber production records at several Lenzing sites. All plants ran at full capacity. This success is based on the dedicated investment made in the consistent elimination of production bottlenecks at all sites.

BUSINESS UNIT TEXTILE FIBERS

In the first quarter of this year Business Unit Textile Fibers saw the first benefits of the development and market activities started last year. The emphasis of these activities is on the dedicated deployment of specific fiber quality specifications for new applications. The market received these new products and fiber applications positively, making them contributors to the rising business volume of the business unit. Moreover, the composition of the product mix was shifted towards high-quality and specialty fibers, such as modal, with the support of active marketing. Lenzing applications for home textiles and sportswear were very successful. The development of sales and results for Business Unit Textile Fibers for the first quarter of 2006 has been fully gratifying.

BUSINESS UNIT NONWOVEN FIBERS

The economic activity of Business Unit Nonwoven Fibers was characterized by very good quantity demand. Price levels are still not satisfactory. Overcapacity and cost pressure result in heavy competition, especially in spunlace products, such as wet wipes. Demand for hygiene applications continues to be positive. Sales for nonwovens based on TENCEL® increased. The overall focus will be on the continued expansion of the specialty fiber business.

SECTORS PAPER, PLASTICS AND ENGINEERING

PAPER FIRST PRICE INCREASES

Sector Paper was finally able to implement at least partial price increases. The results situation was not satisfactory, due to continuing cost increases and the volatile market situation for envelope paper. The implementation of boosted cost reduction measures continues.

VERY GOOD BUSINESS DEVELOPMENT FOR PLASTICS AND ENGINEERING

Sector Plastics achieved a good result for the first quarter of 2006. Quantity demand for specialty products was good, especially for insulation materials for the construction industry and for PTFE products for hot gas filtration. But Lenzing Plastics, too, suffered from the unabated strong rise in raw material costs. Passing these costs on to the customer will be a major challenge. More price increases are planned for the near future. We expect a continued positive development.

Sector Systems Construction and Engineering continues to benefit from a positive economic environment for all product divisions. New orders were obtained in product groups Fiber and Pulp Technology and in Mechatronics. The sales and results situation is satisfactory.

COMING EVENTS

The 62nd regular shareholders' meeting of Lenzing AG will take place on 14 June 2006 at 11 am at the Lenzing Kulturzentrum. We ask all attending shareholders to observe the relevant depositing requirements.

The Management Board will propose to the shareholders' meeting an unchanged dividend of EUR 8.00 per share for business year 2005. This proposal reflects the currently brightening market situation of the fiber business.

The date for dividend payment has been set for 23 June 2006 and the ex-dividend day for 19 June 2006.

OUTLOOK

The positive market environment is expected to remain so for the second quarter of 2006. The reduction of capacities in the European textile industry, caused by the heavy import pressure of Asian textiles at the start of 2005, has come to a preliminary end. This will cause a slight recovery of demand in Europe, especially for high-quality specialty fibers for high-fashion products.

Asian demand will remain strong.

The construction of the Lenzing viscose fiber production plant at Nanjing/China with a nominal capacity of 60,000 tons per year is on schedule. Production will start at the beginning of 2007.

The market presence in Asia is to be further consolidated by a new sales office in Mumbai/India, to be opened in the first half of 2006. The office is to ensure the optimum supply of the Indian market with Lenzing Fibers.

The challenge of the coming months: Compensating the heavy cost pressure exerted by energy and raw material prices, which will lead to a burden in the double-digit million euro range for 2006. Compensation will be achieved by price adaptations and an ambitious cost reduction program. First cost reduction measures have already been implemented, more will follow in the course of the year. Lenzing is confident to achieve another good result for 2006 by the implementation of all these measures.

Lenzing, May 2006

The Management Board

INCOME STATEMENT

ON A GROUP BASIS ACCORDING TO IFRS	1-3/2006	1-3/2005
	EUR mill.	EUR mill.
Sales	261.2	233.8
Changes in inventories and work performed by the Group and capitalized	-2.5	4.0
Other operating income	4.6	3.4
Cost of material and purchased services	-136.9	-120.4
Personnel expenses	-53.6	-51.3
Amortization of intangible assets and depreciation of property, plant and equipment	-16.8	-16.5
Other operating expenses	-33.3	-25.6
Income from operations (EBIT)	22.8	27.4
Financial income and expenses	-3.2	-0.1
Income before taxes (EBT)	19.6	27.3
Income taxes	-5.5	-6.8
Net income	14.1	20.5
Attributable to:		
Shareholders of Lenzing AG	12.1	18.8
Minority interests	2.0	1.7
	EUR	EUR
Earnings per share	3.31	5.10

BALANCE SHEET

ON A GROUP BASIS ACCORDING TO IFRS	31/03/2006		31/12/2005	
	EUR mill.	in %	EUR mill.	in %
ASSETS				
Intangible assets and property, plant and equipment	603.9	59.0	609.0	60.2
Financial assets	29.6	2.9	29.9	3.0
Other non-current assets	3.0	0.3	2.7	0.3
Non-current assets	636.5	62.2	641.6	63.5
Inventories	121.4	11.9	124.1	12.3
Receivables	176.6	17.2	159.3	15.8
Investments and cash and cash equivalents	89.2	8.7	85.1	8.4
Current assets	387.2	37.8	368.5	36.5
Total assets	1,023.7	100.0	1,010.1	100.0

EQUITY AND LIABILITIES	31/03/2006		31/12/2005	
	EUR mill.	in %	EUR mill.	in %
Equity	468.4	45.8	455.5	45.1
Government grants	42.4	4.1	37.0	3.7
Bank and other loans	195.8	19.1	199.9	19.8
Provisions	103.6	10.1	105.6	10.5
Liabilities	4.6	0.5	8.6	0.8
Non-current liabilities	304.0	29.7	314.1	31.1
Bank and other loans and overdrafts	34.7	3.5	54.1	5.3
Provisions	75.5	7.3	61.9	6.1
Liabilities	98.7	9.6	87.5	8.7
Current liabilities	208.9	20.4	203.5	20.1
Total equity and liabilities	1,023.7	100.0	1,010.1	100.0

CASH FLOW STATEMENT

ON A GROUP BASIS ACCORDING TO IFRS	1-3/2006	1-3/2005
	EUR mill.	EUR mill.
Gross cash flow	29.3	36.7
Change in working capital	9.5	-12.6
Net cash from operating activities	38.8	24.1
- Acquisitions of non-current assets	-17.1	-7.1
+ Proceeds from the disposal/redemption of non-current assets	3.4	0.2
Net cash used in investing activities	-13.7	-6.9
+ Payments of other shareholders	1.5	0.0
+/- Receipts from and redemption of loans and overdrafts	-22.4	-16.4
Net cash used in (-) provided by (+) financing activities	-20.9	-16.4
Change in cash and cash equivalents	4.2	0.8
Cash and cash equivalents at the beginning of the year	77.1	59.6
Currency translation adjustment relating to cash and cash equivalents	-0.2	0.7
Cash and cash equivalents at the end of the period	81.1	61.1

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PRINTED BY

kb-offset, Regau

TRANSLATION

semiogeny, England

PHOTOGRAPHY BY

Fotostudio Manfred Lang GmbH
ElectricArts GmbH
Daniele Mattioli/Agentur Anzenberger