



Annual **financial report**

# KEY FINANCIAL FIGURES OF THE ANDRITZ GROUP

(According to IFRS)	Unit	2011	2010	2009	2008	2007
Order intake	MEUR	5,706.9	4,131.9	3,349.3	3,705.3	3,749.5
Order backlog (as of end of period)	MEUR	6,683.1	5,290.9	4,434.5	4,277.4	3,843.3
Sales	MEUR	4,596.0	3,553.8	3,197.5	3,609.8	3,282.5
Return on sales <sup>1)</sup>	%	6.8	6.9	4.6	6.1	6.1
EBITDA <sup>2)</sup>	MEUR	386.2	307.3	218.2	278.2	250.7
EBITA <sup>3)</sup>	MEUR	331.5	257.6	164.1	233.2	209.7
Earnings Before Interest and Taxes (EBIT)	MEUR	312.7	245.5	147.1	218.5	200.9
Earnings Before Taxes (EBT)	MEUR	321.7	247.9	149.6	210.5	200.8
Net income (including non-controlling interests)	MEUR	231.5	177.0	102.9	147.0	137.8
Net income (without non-controlling interests)	MEUR	230.7	179.6	96.8	139.7	132.7
Cash flow from operating activities	MEUR	433.8	704.5	345.7	255.0	33.1
Capital expenditure <sup>4)</sup>	MEUR	77.0	68.8	70.5	69.7	57.0
Free cash flow <sup>5)</sup>	MEUR	361.1	644.9	285.6	187.5	-19.6
Free cash flow per share <sup>6)</sup>	EUR	6.9	12.4	5.5	3.6	-0.4
Employees (as of end of period; without apprentices)	-	16,750	14,655	13,049	13,707	12,016
Fixed assets	MEUR	1,151.8	858.9	731.4	732.1	632.3
Current assets	MEUR	3,414.8	3,176.9	2,577.9	2,354.2	1,877.1
Shareholders' equity <sup>7)</sup>	MEUR	938.9	794.4	663.5	577.4	481.6
Provisions	MEUR	667.3	582.8	529.9	477.3	402.4
Liabilities	MEUR	2,960.4	2,658.6	2,115.9	2,031.6	1,625.4
Total assets	MEUR	4,566.6	4,035.8	3,309.3	3,086.3	2,509.4
Equity ratio <sup>8)</sup>	%	20.6	19.7	20.0	18.7	19.2
Return on equity <sup>9)</sup>	%	34.3	31.2	22.5	36.5	41.7
Return on investment <sup>10)</sup>	%	6.8	6.1	4.4	7.1	8.0
Liquid funds <sup>11)</sup>	MEUR	1,814.5	1,594.7	1,082.1	821.8	598.8
Net liquidity <sup>12)</sup>	MEUR	1,400.6	1,177.0	677.9	408.9	246.5
Net debt <sup>13)</sup>	MEUR	-1,198.4	-992.0	-505.3	-242.9	-94.8
Net working capital <sup>14)</sup>	MEUR	-639.2	-556.1	-104.3	22.7	99.1
Capital employed <sup>15)</sup>	MEUR	-128.6	-86.0	285.9	406.8	405.6
Gearing <sup>16)</sup>	%	-127.6	-124.9	-76.2	-42.1	-19.7
EBITDA margin	%	8.4	8.6	6.8	7.7	7.6
EBITA margin	%	7.2	7.2	5.1	6.5	6.4
EBIT margin	%	6.8	6.9	4.6	6.1	6.1
Net income/sales	%	5.0	5.0	3.2	4.1	4.2
ROE <sup>17)</sup>	%	24.7	22.3	15.5	25.5	28.6
EV <sup>18)</sup> /EBITDA	-	5.0	7.8	6.5	1.9	7.6
Depreciation and amortization/sales	%	1.6	1.7	2.0	1.5	1.4

1) EBIT (Earnings Before Interest and Taxes)/sales 2) Earnings Before Interest, Taxes, Depreciation, and Amortization 3) Earnings Before Interest, Taxes, Amortization of identifiable assets acquired in a business combination and recognized separately from goodwill at the amount of 17,839 TEUR (2010: 12,158 TEUR), and impairment of goodwill at the amount of 1,000 TEUR (2010: 0 TEUR) 4) Additions to intangible assets and property, plant, and equipment 5) Cash flow from operating activities minus capital expenditure plus payments from the sale of intangible assets and property, plant, and equipment 6) Free cash flow/total number of shares 7) Total shareholders' equity including non-controlling interests 8) Shareholders' equity/total assets 9) EBT (Earnings Before Taxes)/shareholders' equity 10) EBIT (Earnings Before Interest and Taxes)/total assets 11) Cash and cash equivalents plus marketable securities plus loans against borrowers' notes 12) Liquid funds plus fair value of interest rate swaps minus financial liabilities 13) Interest bearing liabilities including provisions for severance payments, pensions, and jubilee payments minus cash and cash equivalents, marketable securities and loans against borrowers' notes 14) Non-current receivables plus current assets (excluding cash and cash equivalents as well as marketable securities) minus other non-current liabilities and current liabilities (excluding financial liabilities and provisions) 15) Net working capital plus intangible assets and property, plant, and equipment 16) Net debt/total shareholders' equity 17) ROE (Return On Equity): net income/total shareholders' equity 18) EV (Enterprise Value): market capitalization as of end of year minus net liquidity

# KEY FINANCIAL FIGURES OF THE BUSINESS AREAS

<b>HYDRO</b>	Unit	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Order intake	MEUR	2,096.2	1,870.1	1,693.9	1,543.4	1,216.1
Order backlog (as of end of period)	MEUR	3,671.4	3,376.0	2,894.5	2,590.1	1,954.9
Sales	MEUR	1,772.9	1,579.2	1,378.0	1,205.9	910.0
EBITDA	MEUR	174.3	139.9	120.9	105.7	66.3
EBITDA margin	%	9.8	8.9	8.8	8.8	7.3
EBITA	MEUR	147.7	118.0	100.5	87.9	52.2
EBITA margin	%	8.3	7.5	7.3	7.3	5.7
Capital expenditure	MEUR	44.3	41.5	44.5	35.0	25.4
Employees (as of end of period; without apprentices)	-	7,285	6,530	5,993	5,606	4,390

<b>PULP &amp; PAPER</b>	Unit	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Order intake	MEUR	2,664.3	1,388.4	923.0	1,033.8	1,406.4
Order backlog (as of end of period)	MEUR	2,221.6	1,099.6	778.7	752.8	1,060.4
Sales	MEUR	1,855.9	1,105.3	903.3	1,326.6	1,462.2
EBITDA	MEUR	136.6	98.4	42.0	84.5	105.3
EBITDA margin	%	7.4	8.9	4.6	6.4	7.2
EBITA	MEUR	118.9	80.7	17.5	66.3	87.8
EBITA margin	%	6.4	7.3	1.9	5.0	6.0
Capital expenditure	MEUR	19.5	16.4	14.9	20.2	21.8
Employees (as of end of period; without apprentices)	-	5,984	4,851	4,239	5,102	4,843

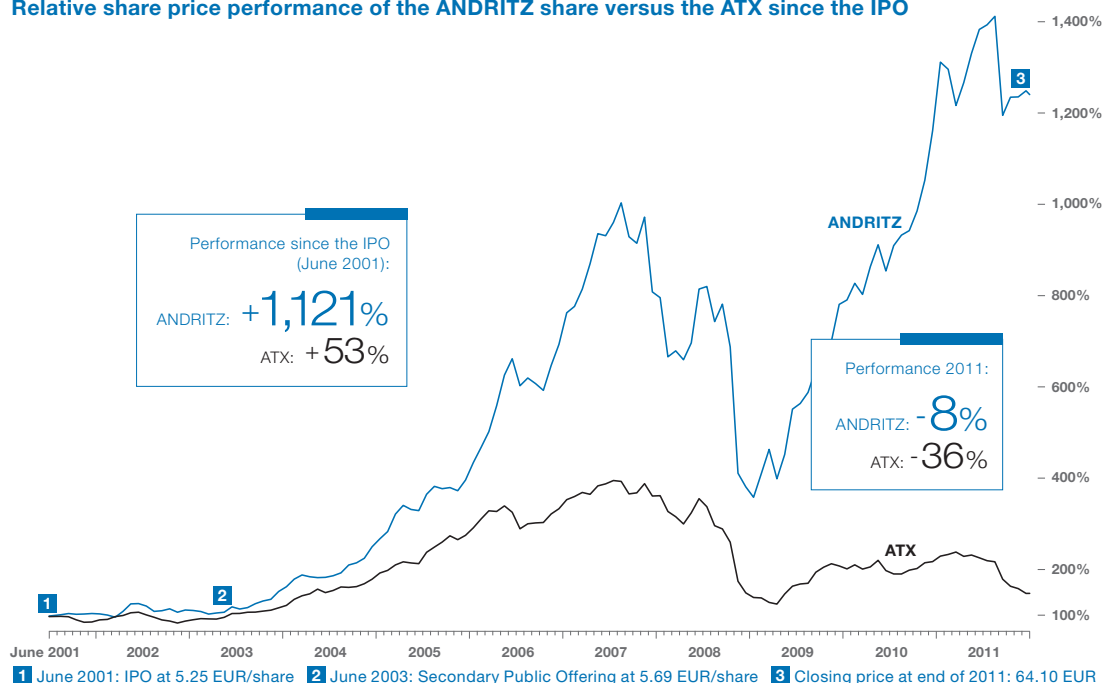
<b>SEPARATION</b>	Unit	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Order intake	MEUR	468.6	424.3	305.4	361.2	346.9
Order backlog (as of end of period)	MEUR	259.2	242.3	139.6	151.8	161.1
Sales	MEUR	448.9	375.4	322.6	366.6	364.4
EBITDA	MEUR	44.2	34.8	29.3	32.1	30.8
EBITDA margin	%	9.8	9.3	9.1	8.8	8.5
EBITA	MEUR	38.2	29.5	24.6	27.3	25.7
EBITA margin	%	8.5	7.9	7.6	7.4	7.1
Capital expenditure	MEUR	7.0	5.7	5.7	7.4	4.9
Employees (as of end of period; without apprentices)	-	1,976	1,816	1,329	1,437	1,349

<b>METALS</b>	Unit	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Order intake	MEUR	318.6	302.7	296.2	611.5	636.4
Order backlog (as of end of period)	MEUR	465.1	521.0	564.1	736.2	631.5
Sales	MEUR	372.7	340.2	473.4	566.2	408.0
EBITDA	MEUR	21.5	21.2	23.2	42.6	33.1
EBITDA margin	%	5.8	6.2	4.9	7.5	8.1
EBITA	MEUR	19.4	18.4	20.5	40.1	30.6
EBITA margin	%	5.2	5.4	4.3	7.1	7.5
Capital expenditure	MEUR	1.8	1.9	2.0	4.3	3.2
Employees (as of end of period; without apprentices)	-	945	937	971	996	880

<b>FEED &amp; BIOFUEL</b>	Unit	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Order intake	MEUR	159.2	146.4	130.8	155.4	143.7
Order backlog (as of end of period)	MEUR	65.8	52.0	57.6	46.5	35.3
Sales	MEUR	145.6	153.7	120.2	144.5	137.8
EBITDA	MEUR	9.6	13.0	2.8	13.3	15.2
EBITDA margin	%	6.6	8.5	2.3	9.2	11.0
EBITA	MEUR	7.3	11.0	1.0	11.6	13.4
EBITA margin	%	5.0	7.2	0.8	8.0	9.7
Capital expenditure	MEUR	4.4	1.8	3.4	2.9	1.7
Employees (as of end of period; without apprentices)	-	560	522	517	566	553

# THE ANDRITZ SHARE

## Relative share price performance of the ANDRITZ share versus the ATX since the IPO



### Key figures of the ANDRITZ share

	Unit	2011	2010	2009	2008	2007
Earnings per share	EUR	4.49	3.48	1.89	2.73	2.61
Dividend per share	EUR	2.20 <sup>1)</sup>	1.70	1.00	1.10	1.00
Payout ratio	%	49.0	48.9	52.9	40.3	38.3
Equity attributable to shareholders per share	EUR	17.49	14.68	12.28	10.59	9.07
Highest closing price	EUR	75.50	68.92	41.94	43.53	54.00
Lowest closing price	EUR	54.82	39.49	17.50	15.96	35.80
Closing price at end of year	EUR	64.10	68.79	40.52	18.16	41.45
Market capitalization (as of end of period)	MEUR	3,333.2	3,577.1	2,107.0	944.3	2,155.6
Performance	%	-7.6	+67.8	+111.0	-54.4	+2.6
ATX weighting (as of end of period)	%	9.2705	7.3211	4.3701	2.9209	2.3950
Average daily number of shares traded <sup>2)</sup>	Share unit	284,069	230,773	307,029	488,638	452,909

<sup>1)</sup> Proposal to the Annual General Meeting. <sup>2)</sup> Double count, as published by the Vienna Stock Exchange. Source: Vienna Stock Exchange

### Basic data of the ANDRITZ share

ISIN code	AT0000730007
First listing day	June 25, 2001
Types of shares	No-par value shares, bearer shares
Total number of shares	52 million
Authorized capital	None
Free float	About 70%
Stock exchange	Vienna (Prime Market)
Ticker symbols	Reuters: ANDR.VI; Bloomberg: ANDR, AV
Stock exchange indices	ATX, ATX five, ATXPrime, WBI

### Financial calendar 2012

Results for the 2011 business year	March 1, 2012
Annual General Meeting	March 22, 2012
Ex-dividend	March 26, 2012
Dividend payment	March 28, 2012
Results Q1 2012	May 4, 2012
Results H1 2012	August 7, 2012
Results Q1-Q3 2012	November 6, 2012

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# STATUS REPORT

## GENERAL ECONOMIC CONDITIONS

The global economic development in 2011 was heavily impacted by the sovereign debt crises in Europe and the USA. Particularly in the USA and in the Euro zone, there was a considerable economic slowdown. Declining industrial capital spending, low consumer demand, as well as turbulences on the international financial markets led to stagnation and a significant global economic slowdown.

Economic development in the USA was impacted by the substantial decline in private consumption, which is the largest contributor to the gross domestic product, and by the employment situation stagnating at a low level during the reporting period. A massive slowdown was also noted in investments by the processing industries. The Federal Reserve announced that it will be leaving key interest rates at just above 0% until at least the end of 2014 and continuing its expansive monetary policy in order to revive the economy. In addition, the long-term inflation rate target was fixed at 2%.

The development in Europe in 2011 was also marked by a distinct slowdown of economic output. Declining private consumption in the largest countries of the Euro zone and a significant decrease in capital spending by governments and industrial companies led to stagnating economic activities. As a result of the latent economic weakness, the European Central Bank, which focuses primarily on price stability, lowered key interest rates to 1.0% although the rate of inflation in the Euro zone was still more than 2%.

In Asia and the other large emerging market regions, there was also an economic slowdown; however, this was much more moderate than in the USA and Europe. In China, in particular, economic growth declined significantly as a result of the government's restrictive lending policy, which is intended to counteract any overheating of the economy. However, the continuing good domestic consumption and exports are supporting the economic environment.

Source: OECD

## BUSINESS DEVELOPMENT

### Changes in consolidated companies/acquisitions

The following companies were not, or only partially, included in the ANDRITZ GROUP's consolidated financial statements for the 2010 business year:

- Precision Machine & Supply, Inc.: service for the hydropower sector
- ANDRITZ Biax: systems and equipment for the production of biaxially stretched plastic films
- ANDRITZ Perfojet: machinery and systems for the production of nonwovens
- ANDRITZ Frautech: separators for applications in the dairy and olive oil industries
- ANDRITZ Delkor Capital Equipment: dewatering equipment, mainly for the mining industry
- ANDRITZ KMPT Group: mechanical and thermal solid/liquid separation, especially for the chemical and pharmaceutical industries
- ANDRITZ Ritz Group: pumps for the water supply and mining sectors, as well as offshore and sub-sea applications

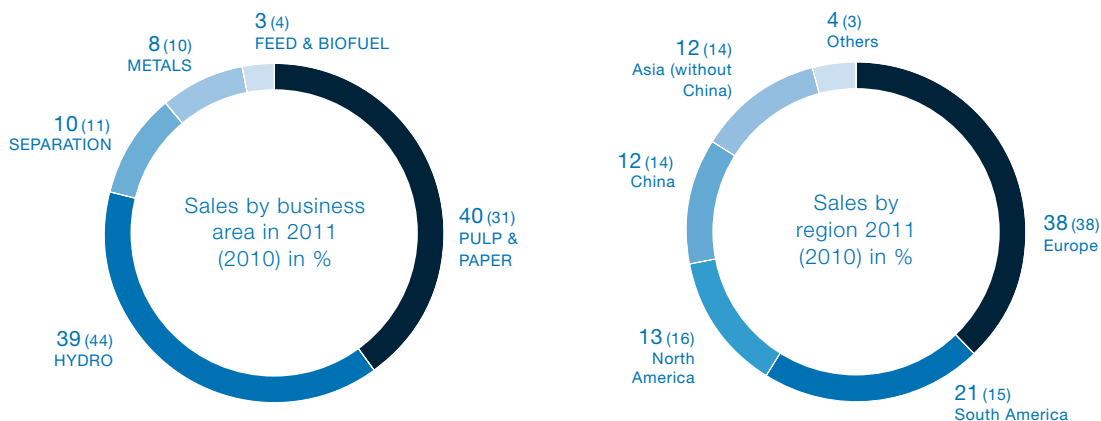
The following companies were included in the consolidated financial statements of the ANDRITZ GROUP for the first time in 2011:

- ANDRITZ Energy & Environment: fluidized bed boilers for steam generation and flue gas cleaning systems
- Hemicycle Controls: automation systems for hydropower stations
- ANDRITZ Iggesund Group: chipping and debarking equipment for pulp and saw mills
- Assets of Tristar Industries: service and manufacturing center for the PULP & PAPER service area
- ANDRITZ Asselin-Thibeau: systems for the production of dry nonwovens (especially for applications in the textile and hygiene sectors)

The initial accounting for the companies/business areas acquired in 2011 was based on preliminary figures.

### Sales

Sales of the ANDRITZ GROUP amounted to 4,596.0 MEUR in 2011, thus 29.3% higher than the reference figure for the previous year (2010: 3,553.8 MEUR). This is mainly attributable to the PULP & PAPER business area, which increased its sales by 67.9% to 1,855.9 MEUR (2010: 1,105.3 MEUR). While the HYDRO, SEPARATION, and METALS business areas also noted a sales increase, sales declined slightly only in the FEED & BIOFUEL business area compared to the previous year.

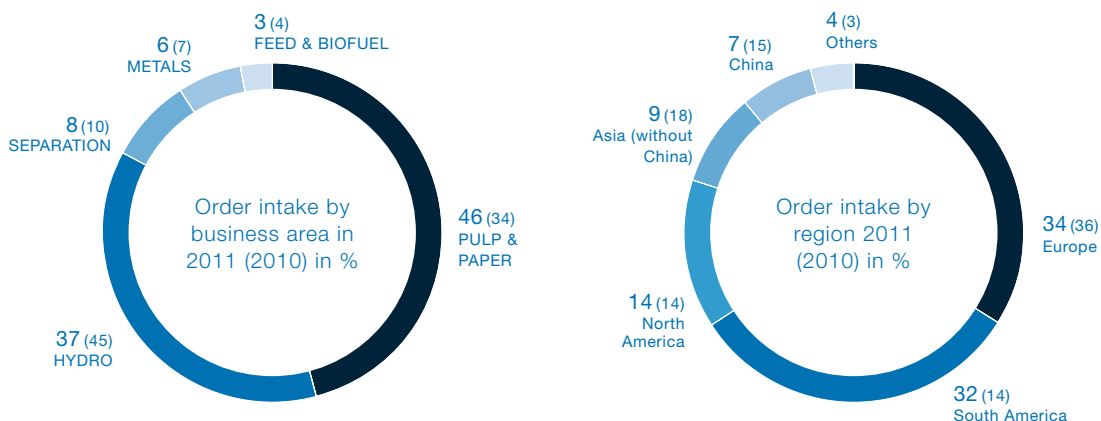


Share of service sales in Group and business area sales in %	2011	2010
ANDRITZ GROUP	27	29
HYDRO	24	24
PULP & PAPER	30	40
SEPARATION	34	30
METALS	10	8
FEED & BIOFUEL	50	44

### Order intake

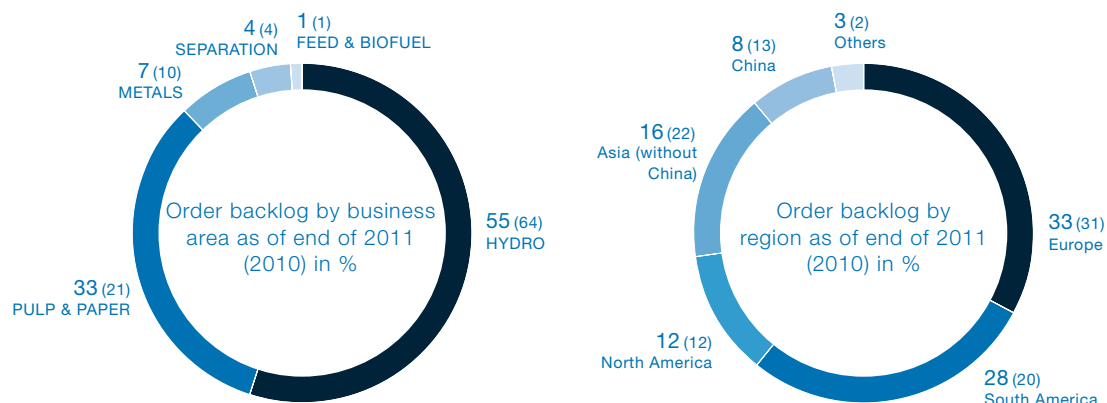
The order intake of the Group reached an all-time high of 5,706.9 MEUR in the reporting period and increased by 38.1% compared to the previous year (2010: 4,131.9 MEUR). The main reason for this sharp rise was the receipt of three large orders in the PULP & PAPER and HYDRO business areas (technologies and equipment supplied for the two pulp mills Eldorado, Brazil, and Montes del Plata, Uruguay; electromechanical equipment for the Belo Monte hydropower station, Brazil).

Thus, the PULP & PAPER business area was able to almost double its order intake at 2,664.3 MEUR compared to the previous year (2010: 1,388.4 MEUR), and also the HYDRO business area reached a record order intake at 2,096.2 MEUR (2010: 1,870.1 MEUR). The other three business areas also achieved an increase in order intake compared to the previous year.



### Order backlog

The order backlog of the ANDRITZ GROUP as of December 31, 2011 amounted to 6,683.1 MEUR (December 31, 2010: 5,290.9 MEUR). With the exception of the METALS business area, the order backlog of all business areas rose compared to the previous year's reference figure.



### Earnings

The EBITA of the Group developed very satisfactorily in the reporting period. It amounted to 331.5 MEUR, thus increasing by 28.7% compared to 2010 (257.6 MEUR). The EBITA margin, at 7.2%, was unchanged compared to the reference value of last year (2010: 7.2%).

In 2011, goodwill impairment (relating to the PULP & PAPER business area) in the amount of 1.0 MEUR was recorded (2010: 0 MEUR). Furthermore, impairment charges in the amount of 1.5 MEUR were noted for intangible and tangible assets (2010: 0 MEUR).

The financial result of the ANDRITZ GROUP amounted to 9.0 MEUR, thus well above the previous year's figure (2010: 2.4 MEUR).

The tax rate was 28.1% in 2011 (2010: 28.6%).

The net income of the Group excluding non-controlling interests amounted to 230.7 MEUR in the reporting period (2010: 179.6 MEUR).

### Net worth position and capital structure

The total assets of the ANDRITZ GROUP as of December 31, 2011 increased to 4,566.6 MEUR (December 31, 2010: 4,035.8 MEUR) mainly due to acquisitions. The equity ratio as of December 31, 2011 was 20.6% (December 31, 2010: 19.7%).

Liquid funds (cash and cash equivalents plus marketable securities plus loans against borrowers' notes) amounted to 1,814.5 MEUR as of December 31, 2011 (December 31, 2010: 1,594.7 MEUR). The net liquidity (liquid funds plus fair value of interest rate swaps minus financial liabilities) amounted to 1,400.6 MEUR and was thus also significantly higher than at the end of last year (December 31, 2010: 1,177.0 MEUR). This increase is mainly due to advance payments for some major projects.

In addition to the high net liquidity, the ANDRITZ GROUP also has, for the time being, the following credit and surety lines for performance of contracts, down payments, guarantees, etc., at its disposal:

- Credit lines: 187 MEUR, thereof 72 MEUR utilized
- Surety lines: 4,922 MEUR, thereof 2,486 MEUR utilized

### Assets

1,207.3 MEUR	1,744.3 MEUR	1,615.0 MEUR
Long-term assets: 26%	Short-term assets: 39%	Cash and cash equivalents, and marketable securities: 35%

### Shareholders' equity and liabilities

938.9 MEUR	436.3 MEUR	400.8 MEUR	2,790.6 MEUR
Shareholders' equity including minority interests: 21%	Financial liabilities: 9%	Other long- term liabili- ties: 9%	Other short-term liabilities: 61%



### Capex and cash flow

The investments in tangible and intangible assets amounted to 77.0 MEUR in 2011 (2010: 68.8 MEUR). Capital expenditure focused mainly on workshop modernizations.

The cash flow from operating activities amounted to 433.8 MEUR and was thus significantly below the previous year's reference value (2010: 704.5 MEUR). This decrease was mainly due to project-related changes in working capital.

### Further important key figures at a glance

(According to IFRS)	Unit	2011	2010	2009	2008	2007
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Capital employed <sup>9)</sup>	MEUR	-128.6	-86.0	285.9	406.8	405.6
Gearing <sup>10)</sup>	%	-106.4	-124.9	-76.2	-42.1	-19.7

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### Important acquisitions

In January 2011, ANDRITZ acquired AE&E Austria GmbH & Co KG, now ANDRITZ Energy & Environment, and thus strengthened and extended the product portfolio in the PULP & PAPER business area. ANDRITZ Energy & Environment specializes in fluidized bed technology for boiler plants and in flue gas cleaning systems.

By acquiring the Canadian company Hemicycle Controls, the HYDRO business area extended and strengthened its automation business in North America. Hemicycle Controls is an established supplier of automation systems for hydropower plants.

ANDRITZ also acquired Asselin-Thibeau, an affiliate of the French NSC Group. ANDRITZ Asselin-Thibeau delivers systems for the production of dry nonwovens (especially for applications in the textile and hygiene sectors). In combination with the well-proven products and technologies of ANDRITZ Küsters and ANDRITZ Perfojet, the PULP & PAPER business area can now offer its customers complete system solutions for the production of nonwovens.

The PULP & PAPER business area has strengthened and expanded its service portfolio in the wood processing sector by acquiring Iggesund Tools International AB, with headquarters in Iggesund, Sweden. ANDRITZ Iggesund Tools supplies chipping and debarking equipment for pulp and saw mills.

## RISK MANAGEMENT

ANDRITZ has a Group-wide risk management system whose goal is to identify nascent risks and to implement countermeasures. This is an important element in active risk management within the Group.

### Main characteristics of the internal controlling and risk management system for the accounting process

The Executive Board is responsible for implementing a suitable internal controlling and risk management system for the accounting process and financial reporting. For this purpose, the Executive Board has agreed on

binding regulations and guidelines/policies to be applied throughout the Group for the main business risks and in the financial reporting process.

The accounting department, which includes financial accounting, reports directly to the Executive Board. Suitable organizational arrangements ensure that the legal requirements to make complete, correct, timely, and orderly entries in the books and other records are met. The entire process from procurement to payment is subject to strict rules and guidelines/policies that are intended to avoid any essential risks these processes may entail. These measures and rules include separation of functions, signature authorization matrices, and signatory powers for authorizing payments applying on a collective basis only and restricted to a small number of employees, as well as system-supported checks by the software in use (SAP).

By using a standardized, Group-wide financial reporting system, together with instant occasion-driven reporting on major events, the Executive Board is informed constantly on all relevant issues. The Supervisory Board is informed in Supervisory Board meetings held at least once every quarter on the current business development, including operative planning and the medium-term strategy of the Group, with direct and immediate information being provided to the Supervisory Board in special cases. Internal control and risk management are among the topics dealt with in audit committee meetings.

Internal auditing, set up as a management administrative department, audits individual processes or Group companies according to an audit plan defined for each year and also special cases.

#### **Financial risks**

Monitoring and management of financial risks are integral parts of the accounting and controlling activities within the ANDRITZ GROUP. Continuous controlling and regular reporting are intended to increase the likelihood of identifying major risks at an early stage and allow countermeasures to be implemented if necessary. Still, there is no guarantee that the monitoring and risk control systems are sufficiently effective.

The essential risks for the business development of the ANDRITZ GROUP relate above all to the Group's dependence on the general economic development and the development of the industries it serves, to whether major orders are received and to the risks they entail; and to whether adequate sales proceeds are realized from the high order backlog. In addition, unexpected increases in costs and difficulties in achieving the guaranteed performance parameters in the plants that ANDRITZ supplies present substantial risks during the project execution. A possible malfunction in the components and systems supplied by ANDRITZ can have serious consequences for individuals and on material assets. The financial difficulties and the continuing difficult overall economic development (particularly in Europe and the USA) also constitute a serious risk for the ANDRITZ GROUP's financial development. In addition, a possible slowdown in economic activities in the emerging markets also presents a risk to the Group. The weak economy may lead to delays in the execution of existing orders and to the postponement or cancellation of existing projects. Cancellations of existing contracts could adversely affect the ANDRITZ GROUP's order backlog, which would in turn have a negative impact on utilization of the Group's manufacturing capacities.

Complete or partial goodwill impairments resulting from acquisitions may also influence the earnings development of the ANDRITZ GROUP if the targeted financial goals for these companies cannot be reached. In addition, there is always some risk that partial or full provisions will have to be made for some trade accounts receivable.

For the majority of orders, the risk of payment failure by customers is mitigated by means of bank guarantees and export insurance, but individual payment failures can have a substantial negative impact on earnings development of the Group. Risks related to deliveries to countries with medium to high political risks typically are also insured to a large extent. Exchange rate risks in connection with the execution of the order backlog are minimized and controlled by derivative financial instruments, in particular by forward exchange contracts and swaps. Net currency exposure of orders in foreign currencies (mainly US dollars and Swiss francs) is hedged by forward contracts. Cash flow risks are monitored via monthly cash flow reports.

In order to minimize the financial risks as best as possible and to enhance monitoring, control, and assessment of its financial and liquidity position, the ANDRITZ GROUP implemented both a comprehensive treasury policy and a transparent information system.

The ANDRITZ GROUP's position in terms of liquidity is very good; the Group has sufficient liquidity reserves and secured access to liquidity. The Group avoids dependence on one single or only a few banks. To ensure independence, no bank will receive more than a certain defined amount of the business in any important product (cash and cash equivalents, financial liabilities, financial assets, guarantees, and derivatives). With this diversification, ANDRITZ is seeking to minimize the counterparty risk as best possible. Nevertheless, if one or more banks were to become insolvent, this would have a considerable negative influence on earnings development and shareholders' equity of the ANDRITZ GROUP. In addition, the lowering of ANDRITZ's credit rating by several banks can limit the financial leeway available to ANDRITZ, particularly regarding sureties to be issued.

ANDRITZ pursues a risk-averse investment strategy. Cash is largely invested in low-risk financial assets, such as government bonds, government-guaranteed bonds, investment funds to cover pension obligations, loans against borrowers' notes insured by a certificate of deposit, or term deposits. However, turbulence on the international financial markets may lead to unfavorable price developments for various securities in which the Group has invested (for example, money market funds, bonds), or make them non-tradeable. This could have an adverse effect on the ANDRITZ GROUP's financial result or shareholders' equity due to necessary depreciation or value adjustments. The crisis has also heightened the risk of default by some issuers of securities, as well as by customers. The Executive Board is informed at regular intervals of the extent and volume of current risk exposure in the ANDRITZ GROUP.

Due to the current sovereign debt crisis in the European Union, there is a risk of complete or partial collapse of the Euro zone and of a possible breakdown of the Euro currency system linked to it. Most likely, this would have a negative effect on the financial, liquidity, and earnings development of the ANDRITZ GROUP.

#### **Non-financial risks**

In the manufacturing sector, precise planning, high commitment, and flexibility of employees are essential factors to ensure short lead times and on-time production. Internally, ANDRITZ uses flextime contracts and a contingent of temporary workforce to cope with cyclical fluctuations and peaks in workload. Also, the fluctuations in capacity utilization that are typical of project-related business can be better absorbed with a targeted make-or-buy strategy and a best possible utilization of the company's own manufacturing capacities. At the same time, process-relevant key components for ANDRITZ plants and products are mainly manufactured and assembled in the Group's own workshops. Simple components, on the other hand, are largely purchased from qualified suppliers, who are subjected to regular quality and on-time performance checks.

In the Human Resources sector, interesting career opportunities, incentive plans, and focused management training programs are essential elements in attracting well-trained and highly qualified employees, and also tying them to the company in the long-term. High quality standards in the selection process guarantee that the most suitable candidates are recruited.

As part of succession planning, internal candidates for succession to key positions are identified on the basis of standardized performance and potential assessments in order to have candidates available in the short- and medium-term to fill any posts becoming vacant. The implemented training programs for future top managers are essential components in achieving this goal. Local development programs for special target groups were initiated or continued as necessary.

The ANDRITZ GROUP strives to compensate variations in capacity utilization at Group level by allocating orders to certain sites worldwide and locally by using temporary workforce.

#### **Impact of exchange rate fluctuations**

Fluctuations in exchange rates in connection with the execution of the order backlog are largely hedged by forward rate contracts.

#### **Non-financial performance indicators**

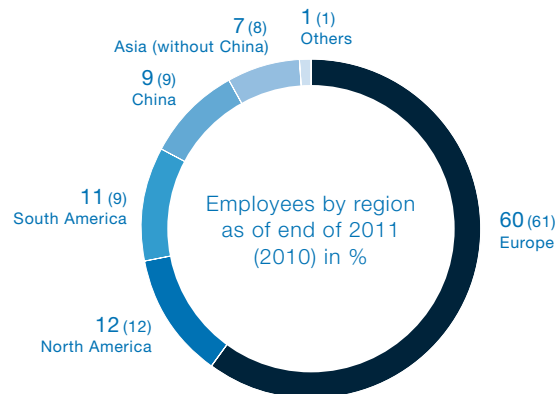
##### **Manufacturing**

Due to the favorable developments in order intake, 2011 was marked by high capacity utilization rates in the manufacturing sector. Record figures in production output were achieved at many ANDRITZ manufacturing locations.

Investments in the manufacturing sector concentrated on establishing and expanding production capacities in the emerging markets of Asia and Eastern Europe (particularly in China and Slovakia) and on modernization of existing locations in Central Europe and North America.

### Human resources

At the end of 2011, the ANDRITZ GROUP had a total of 16,750 employees (an increase of 14.3% compared with December 31, 2010: 14,655 employees).



Human Resources Management is responsible for the coordination and planning of the main personnel processes throughout the Group. The main targets of these processes are to fill vacancies in key positions and to offer attractive career and development opportunities for future managers and specialists. In order to make ANDRITZ more attractive as an employer for engineers, the “Engineering Career Path” project was launched as a Group-wide career model.

Safety-relevant measures were implemented once again in 2011 for the employees at ANDRITZ locations, where the staff received instruction and information on such topics as health in the workplace, occupational safety, waste separation, and fire protection.

### Environmental protection

The ANDRITZ GROUP continued its efforts to protect the environment at the ANDRITZ locations in 2011. These efforts focused mainly on reducing water consumption by making repairs to pipe networks and sanitary facilities and on energy-saving adaptations using modern sensor technology in production shop lighting in some manufacturing sectors. New energy-saving and cost-efficient lighting for offices, production shops, as well as streets and open spaces are currently being tested.

## RESEARCH AND DEVELOPMENT

In 2011, the ANDRITZ GROUP invested 65.6 MEUR in research and development activities (2010: 52.5 MEUR). Total expenditure for research and further development of new processes and products, including contract-related developments, in order to further extend the technological leadership of ANDRITZ amounted to approximately 3% of sales. The business areas' research and development programs in detail include the following:

### HYDRO

In its research and development activities, ANDRITZ HYDRO focuses on flexible, speed-adjustable solutions for hydraulic energy generation. In particular, the generators, electrical and hydraulic equipment, and the higher-level control systems required for this were developed further. This is in response to the continuous rise in the share of renewable resources in electricity production, which means that system operators are faced with challenges regarding grid stability, reliability of energy transmission, and flexibility of generating units.

Cavitation at the tip of a Kaplan turbine blade can result in significant damage to the blade surfaces. This risk predictability was improved in the model test when a non-stationary CFD model (CFD: Computational Fluid Dynamics) and sophisticated measuring equipment were developed. As a result, reliability can be enhanced substantially, particularly in rebuild projects.

Completed was the development of a new concrete volute pump that achieves efficiencies beyond 90% at a flow rate of more than 70 m<sup>3</sup>/sec and a motor speed of 200 rpm, as well as a hydraulic system for volute pumps with metal casing for large delivery heads of 300-400 m, which achieves much better efficiency than comparable pump turbine hydraulic systems.

## **PULP & PAPER**

Research and development activities in the PULP & PAPER business area concentrated on further minimizing consumption of utilities, particularly using fewer raw materials with a lower energy input.

ANDRITZ successfully developed technology for the first full-scale Advanced TMP (ATMP) mechanical pulping line. This technology achieved a world record in reducing energy demand for newsprint TMP (less than 1,500 kWh/t – a 30% reduction compared to traditional technology).

ANDRITZ developed a new auto-hydrolysis process for the continuous production of dissolving pulp with which existing chemical pulp lines can be easily converted to the production of dissolving pulp with only minor modifications. This new ANDRITZ technology has gained rapid acceptance and is being delivered to several customers in Asia where viscose fiber growth is the highest.

After successful operation of several pilot plants, the first commercial-scale system using ANDRITZ's new continuous pre-treatment technology for producing ethanol from cellulosic biomass is scheduled to start up in Europe in 2012. In the USA, another order for a demonstration facility was received. The ANDRITZ technologies being employed are proven in other industrial processes and have been modified to satisfy the requirements for biofuel pre-treatment. Hemi-cellulose from the biomass is extracted at a controlled, elevated temperature prior to rapidly exploding the fibers into very small particles. This aids the enzymatic conversion of these small particles into sugars – which are then further converted into biochemicals and alcohols like bio-ethanol or butanol.

Reduced energy consumption is a critical factor for success in the panelboard industry also. ANDRITZ is developing a new generation of dewatering housings which reduce thermal energy consumption of the fiber dryer by approximately 20%.

Pilot plant work continued with a new system for flue gas desulphurization. The main benefit of the system is a 20% reduction in operating costs.

## **SEPARATION**

In solid/liquid separation, various application requirements were the focus of research and development work. For decanters used in the environmental sector, efforts concentrated on cutting energy consumption, which achieved reductions of up to 40% depending on the size of the decanter and the throughput. The high-speed single-cell drum filters used especially in the plastics industry were expanded to handle larger throughputs, at the same time reducing the specific filtration costs.

In Frohnleiten, Austria, a pilot plant for torrefaction of biomass was started up successfully. Torrefaction improves the fuel properties of biomass so that higher co-incineration rates – and thus savings in CO<sub>2</sub> – can be achieved in coal-fired power stations.

## **METALS**

Further development of the ANDRITZ Pyromars process was one of the research and development activities during the reporting period. This process provides a means of recovering the pickling acid and other valuable substances like chromium and nickel in stainless steel pickling plants. In addition to this economic advantage, a substantial drop can be achieved in the landfill of neutralization sludges otherwise occurring and the nitrate load in effluent can be reduced by up to 90%. In order to make use of the residual load left in the rinsing water, a pilot plant that neutralizes and evaporates the rinsing water was started up in cooperation with a customer from China. The concentrate occurring in this plant can be fed to the Pyromars plant and reused for rinsing purposes. In a further expansion stage, the pilot plant is operated with waste heat from the annealing furnace. ANDRITZ can thus offer its customers a completely closed loop for operating media, making use of waste heat that otherwise remains unused.

## **FEED & BIOFUEL**

In order to improve production capacities in pelleting plants using biomass raw materials (especially wood or straw), the business area launched the BioMax pellet mill. BioMax provides double the throughput compared to the highest capacity machines so far available in the market. The higher capacity mill results in fewer lines being required for each plant, lower operating costs due to the reduced need for staffing, as well as increased energy efficiency and low maintenance requirements.

Based on the demand from the aquatic feed and pet food industries, as well as feed ingredient processing industries, the business area also launched a new extrusion program for the production of all kinds of fish feed, shellfish feed, and pet food. The extruders have been improved in terms of capacity, energy efficiency, controllability, wear part and maintenance cost, lifetime, hygienic standards, as well as cleaning.

## OUTLOOK

Leading economic experts do not expect any substantial change in economic development for 2012 in the most important regions of the world. In Europe in particular, economic activity is expected to remain persistently low as a result of the latent Euro crisis and the related impact on the real economy. A sustainable economic recovery is not expected in the USA either. Satisfactory, but also slower economic growth is only anticipated in the emerging markets of South America and Asia.

In spite of the difficult economic conditions overall, the ANDRITZ GROUP currently sees solid project activity in the markets it serves. Only in the METALS business area, project and investment activities are expected to continue at a moderate level.

In the HYDRO business area, a favorable market environment with solid project activity is expected for 2012, both in the modernization sector for existing hydropower plants and in the construction of new hydropower stations. As a result of the strong growth in the population and the economy and due to efforts in the emerging markets to become less dependent on fossil fuels, a number of new hydropower plant projects can be expected. As a result of the high average age of the installed base, investment activity in Europe and North America will continue to focus on modernization, rehabilitation, and capacity increases for existing plants. Small power stations and pumped storage power stations should also continue to see a high level of project activity due to the necessity to secure grid stability.

In the PULP & PAPER business area, overall satisfactory project activity is expected for 2012 – although not at the very high level of 2011. In South America, current forecasts expect individual order awards for greenfield pulp mills or modernization and expansion of existing mills in the second half of 2012 at the earliest. Satisfactory development is also expected in the environmental technologies sector (recovery and biomass boilers) and in the modernization of existing plants, particularly in Europe.

In the SEPARATION business area, project activity in 2012 should remain solid for both municipal and industrial dewatering and drying plants. In addition to Europe, strong investment activity is also expected in Asia (particularly China).

In the METALS business area, the moderate investment activity should continue in 2012, both in the carbon steel and stainless steel sectors. In view of the substantial fluctuations in capacity utilization rates, some international steel manufacturers, particularly in Europe and North America, have cut their capital expenditure plans to an absolute minimum. Selective project activity is only expected in the emerging markets as a result of the considerable economic and population growth in these regions.

The FEED & BIOFUEL business area is also expected to continue its satisfactory development in 2012. In the aquatic feed and pet food sectors, solid development is anticipated in project activity, particularly in South America, Asia, and Eastern Europe. Similarly, good project activity is expected overall for biomass and wood pelleting plants.

On the basis of these expectations and given the very high order backlog at the end of 2011, the ANDRITZ GROUP currently expects an increase in sales in 2012 in comparison with the previous year's figures. The net income is also expected to rise compared to the last year. If, however, the global economy suffers another setback in 2012, this could have a negative impact on the sales and earnings developments of the ANDRITZ GROUP, making it impossible to achieve the sales and earnings targets set.

### Significant events after December 31, 2011

The status of the global economy and the financial markets did not change substantially in the period between the date of the balance sheet and publication of the present report. The determining factors will continue to be the sovereign debt crises in Europe and the USA, as well as the weakening of the global economy.

## SHARES AND SHAREHOLDER STRUCTURE

Disclosure according to Article 243a of the Austrian Business Code (Unternehmensgesetzbuch – UGB)

The capital stock of ANDRITZ AG as of December 31, 2011 amounted to 104,000,000 EUR. As a result, the proportionate amount of the capital is 2.00 EUR per no-par value share.

There are no limitations concerning the voting rights or the transfer of shares. Slightly less than 30% of the shares are held by Certus Beteiligungs-GmbH, whose Managing Director is Wolfgang Leitner, President and CEO of ANDRITZ AG.

At present, there is no authorized capital. On March 29, 2011, the Annual General Meeting authorized the Executive Board to buy back up to 10% of the total of shares of ANDRITZ AG between April 1, 2011 and September 30, 2013. At the end of March 2011, the Executive Board of ANDRITZ AG decided to make use of this authorization and buy back shares between April 6, 2011 and September 30, 2013. There are no powers of the members of the Executive Board – especially regarding the possibility to issue or buy back shares – that do not result directly from legal stipulations.


As far as is known to the company, there are no holders of shares with special controlling rights. Employees exercise their voting rights directly. Furthermore, there are no stipulations regarding the appointment and removal of the members of the Executive Board and the Supervisory Board, nor regarding modifications of the company's Articles of Association that do not result directly from legal stipulations.

There are no significant agreements in which the company participates that would become effective, change, or end in the event of a change in the control of the company following a takeover bid. According to the terms of the ANDRITZ corporate bond 2006-2013 issued in June 2006 and of the ANDRITZ corporate bond 2008-2015 issued in February 2008, all holders of a bond forming part of the issue shall, in the event of a change of control by a large new shareholder taking place and this change of control leading to a substantial impairment of the issuer's ability to fulfill its obligations from the bonds forming part of the issue, be entitled to accelerate maturity of their bonds and to require immediate repayment at the nominal value plus any interest accumulated up to the day of repayment.

Compensation agreements exist between the company and members of its Executive Board in the event of a change of control. No such compensation agreements exist for the members of the Supervisory Board or any employees.

Graz, February 23, 2012

The Executive Board of ANDRITZ AG




Wolfgang Leitner  
President and CEO



Karl Hornhofer  
PULP & PAPER  
(Capital Systems)



Humbert Köfler  
PULP & PAPER  
(Service & Units),  
SEPARATION



Friedrich Papst  
METALS,  
FEED & BIOFUEL,  
HYDRO



Wolfgang Semper  
HYDRO

#### Disclaimer:

Certain statements contained in the annual financial report 2011 and in the annual report 2011 constitute 'forward-looking statements.' These statements, which contain the words 'believe', 'intend', 'expect', and words of a similar meaning, reflect the Executive Board's beliefs and expectations and are subject to risks and uncertainties that may cause actual results to differ materially. As a result, readers are cautioned not to place undue reliance on such forward-looking statements. The company disclaims any obligation to publicly announce the result of any revisions to the forward-looking statements made herein, except where it would be required to do so under applicable law.

The annual financial report 2011 and the annual report 2011 contain assumptions and forecasts which were based on the information available up to the copy deadline on February 23, 2012. If the premises for these assumptions and forecasts do not occur, or risks indicated in the chapter 'corporate risks' and in the status report in the annual financial report 2011 do arise, actual results may vary from the forecasts made in the annual financial report 2011 and the annual report 2011. Although the greatest caution was exercised in preparing data, all information related to the future is provided without guarantee.

# CORPORATE GOVERNANCE REPORT

ANDRITZ has adopted the rules of conduct laid down in the Austrian Code of Corporate Governance and regards the Code as an essential requirement for implementation of responsible company management and control, which is directed towards creating sustainable added value and transparency for shareholders and other stakeholders. The Executive Board and the Supervisory Board, as well as the entire staff of the ANDRITZ GROUP, are committed to complying with the Code.

## **Mandatory information according to Article 243b of the Austrian Business Code (Unternehmensgesetzbuch – UGB)**

ANDRITZ has adopted the Austrian Code of Corporate Governance, which is publicly accessible and available on the ANDRITZ web site at [www.andritz.com](http://www.andritz.com), and at [www.corporate-governance.at](http://www.corporate-governance.at), the website of the Austrian Working Group for Corporate Governance.

## **Categories of rules of the Austrian Code of Corporate Governance**

The Austrian Corporate Code of Corporate Governance encompasses the following three categories of rules:

- L-Rules** (Legal Requirement): referring to mandatory legal requirements.
- C-Rules** (Comply or Explain): These rules are to be followed or any deviation must be explained and the reasons stated therefore in order to be in compliance with the Code;
- R-Rules** (Recommendation): the nature of this rule is a recommendation; non-compliance with this rule requires neither disclosure nor explanation.

ANDRITZ has already adopted the amended version of the Austrian Code of Corporate Governance which applies only to business years beginning after December 31, 2011, and states as follows regarding the requirements of and the deviations from the Code's C-Rules:

C-Rule 31, C-Rule 51: ANDRITZ AG believes that the publication of the remuneration of single Executive Board members and single Supervisory Board members does not provide the shareholders and other stakeholders with any additional information relevant to the capital market. It would, therefore, not provide them with additional knowledge gain under economic aspects.

## **Composition of the Executive Board according to Article 243b, para. 2 UGB**

The ANDRITZ AG Executive Board consists of five members:

**Wolfgang Leitner**, born on March 27, 1953

- President and CEO
- Responsibilities on the Board: central group functions such as Controlling, Corporate Communications, Human Resources Management, Information Technology, Internal Auditing, Investor Relations, Legal Affairs, and Treasury
- First appointed as President and CEO on June 29, 1994; as CFO on October 1, 1987
- Current mandate ends on June 28, 2013
- Supervisory Board mandates in other listed companies in Austria and abroad: none

**Karl Hornhofer**, born on March 9, 1968

- Responsibilities on the Board: Capital Systems segment of the PULP & PAPER business area, Group-wide for Quality Management
- First appointed on January 1, 2007
- Current mandate ends on December 31, 2014
- Supervisory Board mandates in other listed companies in Austria and abroad: none

**Humbert Köfler**, born on January 11, 1961

- Responsibilities on the Board: Service & Units segment of the PULP & PAPER business area, and SEPARATION business area
- First appointed on April 1, 2007
- Current mandate ends on March 31, 2015
- Supervisory Board mandates in other listed companies in Austria and abroad: none

**Friedrich Papst**, born on November 6, 1952

- Responsibilities on the Board: pumps in the HYDRO business area, as well as the METALS and FEED & BIOFUEL business areas, Group-wide for Manufacturing and Procurement
- First appointed on April 1, 1999
- Current mandate ends on December 31, 2015
- Supervisory Board mandates in other listed companies in Austria and abroad: none

**Wolfgang Semper**, born on March 9, 1958

- Responsibilities on the Board: HYDRO business area, Group-wide for AUTOMATION
- First appointed: April 1, 2011
- Current mandate ends: March 31, 2014
- Supervisory Board mandates in other listed companies in Austria and abroad: none



### Composition of the Supervisory Board according to Article 243b, para. 2 UGB

The ANDRITZ AG Supervisory Board consists of six appointed members and three delegated members.

#### Appointed members:

**Hellwig Torggler**, born on August 26, 1938

- Chairman of the Supervisory Board
- First delegated on September 6, 2000
- Current mandate ends on the date of the Annual General Meeting deciding on the discharge for business year 2013
- Supervisory Board mandates in other listed companies in Austria and abroad: none

**Klaus Ritter**, born on April 20, 1940

- Deputy Chairman of the Supervisory Board
- First appointed on March 30, 2004
- Current mandate ends on the date of the Annual General Meeting deciding on the discharge for business year 2015
- Supervisory Board mandates in other listed companies in Austria and abroad: none

**Peter Mitterbauer**, born on November 14, 1942

- First appointed on April 8, 2003
- Current mandate ends on the date of the Annual General Meeting deciding on the discharge for business year 2013
- Supervisory Board mandates in other listed companies in Austria and abroad: Oberbank AG, Rheinmetall AG

**Christian Nowotny**, born on July 23, 1950

- First appointed on December 29, 1999
- Current mandate ends on the date of the Annual General Meeting deciding on the discharge for business year 2012
- Supervisory Board mandates in other listed companies in Austria and abroad: none

**Fritz Oberlerchner**, born on June 16, 1948

- First appointed on March 29, 2006
- Current mandate ends on the date of the Annual General Meeting deciding on the discharge for business year 2014
- Supervisory Board mandates in other listed companies in Austria and abroad: STRABAG AG, Cologne

**Kurt Stiassny**, born on October 6, 1950

- First appointed on December 29, 1999
- Current mandate ends on the date of the Annual General Meeting deciding on the discharge for business year 2014
- Supervisory Board mandates in other listed companies in Austria and abroad: Austria Email AG

#### Delegated members:

**Georg Auer**, born on October 12, 1974

- First delegated on July 1, 2011

**Isolde Findenig**, born on April 1, 1956

- First delegated on January 1, 2012

**Andreas Martiner**, born on November 11, 1964

- First delegated on February 14, 2001

**Brigitta Wasserbauer**, born on June 14, 1952

- First delegated on September 6, 2000 (until December 31, 2011)

Regarding the independence criteria, the Supervisory Board of ANDRITZ AG follows the guidelines laid down in the Corporate Governance Code, Annex 1. According to these guidelines, all members of the Supervisory Board of ANDRITZ AG, with the exception of Hellwig Torggler, can be seen as independent. No member of the Supervisory Board of ANDRITZ AG holds more than 10% of the total of shares.

### **Description of the working procedures of the Executive Board and the Supervisory Board in accordance with Article 243b, para. 2 UGB**

#### **Allocation of competencies in the Executive Board**

The Executive Board of ANDRITZ AG holds board meetings at regular intervals on essential, Group-relevant topics and/or single business areas, such as PULP & PAPER or HYDRO. The competencies and responsibilities of the individual Executive Board members are listed in the notes on the Executive Board members in this Corporate Governance report. The rules of procedure for the Executive Board contain a comprehensive catalog of those business transactions requiring the prior approval of the Supervisory Board in addition to those stated in the mandatory regulations in the Corporation Act.

#### **Supervisory Board committees**

The Supervisory Board of ANDRITZ AG established an audit committee that held two meetings (March 3, 2011 and December 1, 2011) to deal with the consolidated financial statements for 2010, prepare the review of the annual and consolidated financial statements for 2011 and of the proposal for appropriation of profits, additionally to deal with issues concerning the auditors, and implementation of the internal control and risk management systems in the ANDRITZ GROUP. The members of the audit committee up to August 25, 2011 were: Hellwig Torggler (Chairman), Kurt Stiassny (Deputy Chairman), Klaus Ritter, Christian Nowotny, and Andreas Martiner. Kurt Stiassny stepped down as member of the audit committee, effective as of August 25, 2011. Klaus Ritter was elected Deputy Chairman in his place.

The Supervisory Board has also established a nomination and remuneration committee whose scope of activities includes the remuneration paid to the Executive Board members and the content of their employment contracts, as well as appointments to Executive and Supervisory Board positions that become vacant, and succession planning matters. Until August 25, 2011, the members of the nomination and remuneration committee were Kurt Stiassny (Chairman) and Hellwig Torggler (Deputy Chairman). Kurt Stiassny stepped down as member of this committee, effective as of August 25, 2011. On this date, Peter Mitterbauer and Klaus Ritter were elected as additional members of the nomination and remuneration committee. At the same time, Hellwig Torggler was elected as Chairman of this committee and Peter Mitterbauer as Deputy Chairman.

The ANDRITZ AG Supervisory Board held four regular meetings in 2011. The focal points of these meetings were monitoring of the current business development of the ANDRITZ GROUP, including possible deviations from the budget, the strategic goals, medium-term planning for the individual business areas, as well as specific topics, such as acquisitions of companies, granting of joint procurations, and other business subject to approval.

### **Measures to promote the appointment of women to the Executive Board, the Supervisory Board, and to management posts (Article 80, Corporation Act)**

For many years now, the ANDRITZ GROUP has pursued a strategy of promoting diversity of its employees in terms of their qualifications, experience and age, cultural background, gender, and similar factors. During the reporting period, supra-regional activities began in order to approach graduates of different universities on behalf of the ANDRITZ GROUP.

Considerable attention is paid to maintaining a strict equal opportunities policy in the recruitment process. In many countries, there are still far fewer women than men opting for technical professions or graduating in engineering subjects. ANDRITZ tries to motivate female engineering graduates to submit applications.

Various measures have been implemented and investments made to improve the work-life balance for employees to the extent required by the social structures in the various countries. The company-run nursery school set up beside the headquarters of the ANDRITZ GROUP in Graz and the flexible working hours available to employees with young children are two examples of these measures. When creating office space as part of new building projects, consideration is always given to the establishment of child care facilities for the children of employees.

In many areas, women were successful in being appointed to management posts. Only recently, Group-wide managerial posts at first and second reporting level were filled by women. ANDRITZ supports various initiatives to encourage women to take a degree in a technical subject.

### **Disclosure of information on the remunerations of the Executive Board and Supervisory Board (C-Rule 30)**

- The remuneration of the Executive Board is composed of a fixed and a variable/success-based portion. The amount of the variable portion depends on the net income, including the consideration of linear goodwill amortization. For new contracts with members of the Executive Board, the maximum value for the variable annual remuneration was fixed at three times the fixed annual remuneration. Any amounts in excess of this

sum will be credited as a variable remuneration for the following years. If the net income of the Group falls short of a defined minimum amount, this results in a 'malus' that is also carried forward to the following years and to a reduction in future variable salary components.

- In all share option programs for managerial staff and the Executive Board since the IPO, participation was contingent on investing at least 20,000 EUR in ANDRITZ shares for managerial staff and 40,000 EUR for members of the Executive Board no later than the allocation date of the options. This investment must be maintained continuously until exercise of the options by those persons subscribing to the option program and evidence thereof must be brought when the options are exercised. There is a waiting period of three years before options can be exercised if the contract of employment is still in force (exception: end of employment contract as scheduled according to contract provisions).
- The members of the Executive Board are entitled to receive pension scheme benefits. In addition to a retirement pension, these include benefits in the event of occupational disability, as well as pension payments for dependents following the death of the beneficiary. The retirement pension is normally paid as from a certain age provided that the employment contract has already been terminated by this date. The administration work has been outsourced to a pension fund. In the event that the employment contract is terminated prematurely, contributions made up to this point shall still be vested. The pension amount to which the beneficiary is entitled is not subject to an escalation clause before any benefits become payable, but will be adjusted annually thereafter.
- Each member of the Executive Board shall, upon termination of his/her function and concurrent termination of employment, be entitled to severance payments in the meaning of Article 23 of the Austrian Employees Act unless such termination is the result of justified dismissal.
- The principles applied in establishing the remuneration of the Executive Board and of senior managers comply with the Austrian Code of Corporate Governance.
- ANDRITZ AG took out Directors' and Officers' liability insurance (D&O insurance) for 2011. The expenses are borne by the company. The D&O insurance covers certain personal liability risks of persons in the ANDRITZ GROUP acting under responsibility. The annual cost is approximately 240,000 EUR.
- The remuneration scheme of the Supervisory Board is composed of a fixed and an attendance-related portion. The fixed portion is a global sum, which is to be distributed such that the chairman of the Supervisory Board receives double the amount and his deputy one-and-a-half-times the amount paid to the other members. The second portion consists of a lump sum fee paid in respect of each meeting that the member attends.
- The remuneration report for the Executive Board and the Supervisory Board of ANDRITZ AG is available in the Notes to the annual financial report 2011.

Graz, February 2012

The Executive Board of ANDRITZ AG

Wolfgang Leitner m. p.  
President and CEO

Karl Hornhofer m. p.

Humbert Köfler m. p.

Friedrich Papst m. p.

Wolfgang Semper m. p.

## CORPORATE RISKS

The ANDRITZ GROUP is a globally-operating company serving a variety of industrial markets and customers. As such, the Group is subject to certain general and industry-specific risks. ANDRITZ has a Group-wide control and steering system whose main task is to identify nascent risks at an early stage and – if possible – to take countermeasures.

The risks for the ANDRITZ GROUP include, but are not limited to, the following (see also the section on risk management in the status report):

### **Risks in connection with the general economic development**

#### Effects of the financial and economic crisis

The global economic development constitutes a considerable risk for the future financial development of the ANDRITZ GROUP and could lead to delays in the execution of existing orders and to postponement or termination of current projects. This may entail a decline in the Group's order intake. Possible cancellations of existing orders could have a negative impact on the ANDRITZ GROUP's order backlog. Both factors may have an adverse effect on the future sales and earnings developments of the Group and also on the Group's order backlog.

Turbulent conditions on the international financial markets and the resulting negative and volatile development of securities, capital, and currency markets also constitute a considerable financial risk for the ANDRITZ GROUP. The Group avoids dependence on one single or only a few banks by defining limits for certain relevant financial positions (cash and cash equivalents, financial liabilities, financial assets, guarantees, and derivatives). Cash is largely invested in traditionally low-risk financial assets, such as government bonds, government-guaranteed bonds, investment funds to cover pension obligations, or term deposits. There is, however, no way of excluding the possibility of one or several banks with which the ANDRITZ GROUP does business encountering financial difficulties, which could have a negative impact on the volume placed with these banks or result in ANDRITZ not having immediate or only partial access to these investments. In addition, adverse development of financial markets may lead to unfavorable price developments or illiquidity of various securities (investment funds, bonds, etc.) in which the Group has invested, which could adversely affect the ANDRITZ GROUP's financial result or shareholders' equity due to necessary depreciations of the value of such securities.

A negative economic development could create the need for complete or partial impairment of some goodwill created in the course of acquisitions if business goals cannot be reached. This might significantly influence the earnings development.

The latent global sovereign debt crisis also presents a serious risk to the financial development of the ANDRITZ GROUP. Due to the current sovereign debt crisis in the European Union, there is a risk of complete or partial collapse of the Euro zone and of a possible breakdown of the Euro currency system linked to it. Most likely, this would have a negative effect on the financial, liquidity, and earnings development of the ANDRITZ GROUP. The related financial risks are described in the section on risk management in the status report.

### **Risks related to the industries in which the Group operates**

#### Volatility of incoming orders

Some customers and industries served by the ANDRITZ GROUP are directly dependent on general economic development and thus subject to frequent fluctuations in the demand for their products. This is especially true of the PULP & PAPER and the METALS business areas, but all business areas can be affected. The prices for products in these segments are, in part, directly dependent on the prevailing relationship between supply and demand for the goods produced by such products. Possible price fluctuations are, therefore, apt to have a direct influence on each customer's capital investment decisions, with subsequent influence on the Group's order intake. This may lead to some volatility in the development of the Group's order intake.

#### Customer concentration

In many of the industries served by ANDRITZ, there is a trend towards consolidation and mergers. This applies above all to the pulp and paper industry, and also the steel industry. This consolidation may result in a reduction of the number of customers in the future, as well as the Group having to negotiate with global companies that have greater purchasing power. The dependence on key customers may increase, which could have direct consequences on the Group's financial development.

#### Uncertainty of future contracts

Among other things, the Group's future performance depends on its securing new contracts. It can be difficult to predict when an order for which the ANDRITZ GROUP has provided a quotation will actually be awarded. Contract awards are often affected by events outside the control of the Group, such as prices, demand, general economic conditions, the granting of governmental approvals, and the securing of project financing. This uncertainty can cause difficulties in matching the Group's fixed costs and predicted order volume.

### Safety and environmental matters

The Group's operations are subject to numerous local, national, and supranational environmental regulations. The Group uses and generates hazardous substances in its manufacturing operations. In addition, many of the Group's current and former properties are, or were, used for industrial purposes, and disposal of waste at disposal sites has been arranged. It is possible that the Group may be subject in the future to liabilities relating to the investigation and clean-up of contaminated areas. The HYDRO business area occasionally assumes joint liability for environmental risks in certain hydropower station projects.

In addition, the ANDRITZ GROUP supplies many systems with products and/or processes that pose the risk of serious or fatal injury (also to a larger number of people), or of substantial property damage. Several systems involve the use of dangerous and hazardous chemicals and materials. Products of ANDRITZ are also used in the primary cooling circuits of nuclear power plants. The Group provides installation and other services on industrial sites containing dangerous and hazardous chemicals and materials. In the event of an accident, for example a spill of such hazardous materials, a fire, or an explosion, the Group could be held liable for property damage, personal or fatal injury, and environmental remediation.

### Insurance

While the ANDRITZ GROUP maintains insurance programs to cover typical insurable risks related to its business, there can be no assurance that the insurers are liable to pay damages or that the amount of the Group's insurance will be adequate. Moreover, the Group is involved in certain industries (for example space and nuclear industries) for which such risks are typically uninsurable. Any material liability not covered by insurance would have a material adverse effect on the Group's financial condition.

## Risks related to the Group's business

### Currencies

The Group has operations and subsidiaries in a large number of countries outside Euro land, and a significant portion of its sales and costs are denominated in non-Euro currencies, mainly in US dollars and pounds sterling. The currencies in these countries are subject to fluctuations in exchange rates. Currency risks in connection with the execution of the order backlog are minimized by derivative financial instruments, in particular forward exchange contracts and swaps.

Although the Group attempts to hedge the net currency exposure of those orders not invoiced in Euros by arranging forward contracts, currency fluctuations can result in the recognition of exchange rate losses in the Group's financial statements. Developments of exchange rates may also have translation effects on the Group's sales and earnings whose values are converted into Euros. In addition, shifts in exchange rates may affect ANDRITZ's position relative to its competitors, although many competitors of ANDRITZ are also based in Euro land. As some of ANDRITZ's major customers are based outside Euro land, changes in exchange rates could lead to delays in project decisions by those customers. Also, the shareholders' equity of the ANDRITZ GROUP is not hedged and is thus susceptible to being affected by changes in the exchange rate.

Cash flow risks are monitored via monthly cash flow reports.

### Competitive position

The ANDRITZ GROUP does business in highly competitive markets in which only a few large suppliers bid for only a few large orders. In addition, there are many small companies competing locally that have a comparatively low cost base. This competitive position has a negative impact on sales margins of the Group. The ANDRITZ GROUP has invested approximately 3% of total sales in research and development and has so far been able to offer its customers the latest technological developments. There is, however, no assurance that the Group can maintain and defend this position in the future.

To the extent that the Group's competitive position can be traced to proprietary technology, the global increase in piracy and reverse engineering may also have an adverse effect on the Group's competitive position. The Group makes efforts to protect its intellectual property, but there can be no assurance that these efforts are successful.

### Acquisition and integration of complementary business segments

One of the Group's main strategic goals is to become a full-line supplier in all of its business areas through organic growth and complementary acquisitions. In the course of implementing this strategy, the Group has acquired and integrated a number of companies with worldwide operations since 1990.

There is, however, no guarantee that the Group will be successful in identifying and acquiring appropriate acquisition candidates in the future, or that suitable candidates and sufficient financing will be available. In

the past, ANDRITZ was successful in integrating newly acquired companies, but there is no guarantee that planned objectives and synergies can be realized for all acquisitions in the future (including the ongoing integration of the most recently acquired companies), or that the Group may not be exposed to new or legacy risks that have not been properly managed or identified.

#### Legal proceedings

In the course of its business, the ANDRITZ GROUP is party to numerous legal proceedings before both administrative and judicial courts and bodies, as well as before arbitration tribunals. The substantial majority of such proceedings is of a nature considered typical of the Group's business, including contract disputes, product liability claims, and intellectual property litigation. Where appropriate, provisions are made to cover the expected outcome of proceedings to the extent that negative outcomes are likely and reliable estimates can be made. There is no guarantee, however, that these provisions will be sufficient.

ANDRITZ Inc., a subsidiary of the ANDRITZ GROUP, is one of many defendants in 58 asbestos cases (status as of December 31, 2011) in the USA. In aggregate, the cases involve 450 plaintiffs. All of the cases involve claims against multiple defendants. ANDRITZ Inc. does not believe it should be found liable in connection with any of these claims and intends to defend each claim vigorously.

#### Compliance

The ANDRITZ GROUP is subject to a variety of legal compliance risks, including compliance with anti-trust and anti-bribery laws in Austria and other countries where the Group conducts business. The Group has created a Compliance Committee to oversee its compliance efforts and has adopted a number of compliance policies, including compliance policies prohibiting the misuse of insider trading, the violation of applicable anti-trust laws and anti-bribery laws, as well as a Global Code of Conduct. While the Group attempts to make sure that such policies are observed, there can be no assurance that no violations will occur or have occurred. Any such violation could have a lasting adverse impact on the financial position and reputation of the Group.

#### Risks related to major orders and other contracts

##### Payment risks from customers

Much of the ANDRITZ GROUP's business involves handling major projects with a large contract value. If a customer fails to meet its payment obligations for one of these projects, this may have a negative effect on the net worth and liquidity position of the Group. The ANDRITZ GROUP tries to limit these risks by securing payment guarantees from banks and export credit insurance agencies. Even in projects covered by export credit insurance, typically only up to 85% of the sales price is secured through such insurance. Moreover, much of the Group's service business is not secured by bank guarantees. Worsening economic conditions could adversely affect the ability of certain customers to meet their payment obligations to ANDRITZ.

In addition, there is always some risk that partial or full provisions will have to be made for some trade accounts receivable.

##### Performance risk of projects

In conjunction with the performance of plants supplied by ANDRITZ, in many cases the Group is under contractual obligation to provide performance guarantees and to meet certain deadlines. If the performance data stated are not achieved or if deadlines are exceeded, the Group may have to perform remedial work at its own expense or pay damages. If a guaranteed performance level or deadline is missed by a wide margin, the customer may have the right to terminate the agreement and return the delivered system to the Group for a full refund and/or recover damages. Such action could have an adverse effect on the Group's financial development.

##### Cost overruns

A substantial majority of the Group's projects are based on long-term fixed price contracts. The sales and operating margins realized in a fixed price contract may vary from original estimates as a result of changes in costs, especially fluctuating material costs, and productivity over the term of the contract, especially on projects that include engineering and/or construction of complete plants.

In addition, since certain parts of the Group's supplies are outsourced, the Group may be forced to quote at a fixed price to the customers without knowing exactly the costs of the purchased parts. While estimates are made using empirical data and quotes from potential suppliers, these may not always be completely accurate. The Group has experienced significant losses on certain past and pending projects in this regard, and similar difficulties and losses may occur in the future in a way that would adversely affect the Group's financial condition.

#### EPC/turnkey contract risks

In a growing number of the Group's projects, ANDRITZ has responsibility for plant-wide engineering and/or construction in addition to the supply of ANDRITZ equipment. These turnkey or EPC contracts bear the risks discussed above, but also entail certain risks relating to greater on-site responsibilities, including environmental matters, local labor conditions, as well as construction and installation risks. Additionally, the Group is exposed to the risks inherent in managing the third parties providing construction, installation, and engineering services on these projects. The Group has put risk management procedures in place, including insurance programs, contract policies, and project management discipline, to reduce these EPC-related risks. Nevertheless, there is no guarantee that these procedures are sufficient to prevent negative financial consequences.

#### Consortium risks

In many EPC projects and certain other projects, the ANDRITZ GROUP participates with third parties with whom it shares several joint liabilities. While the Group attempts to make sure that risks in such projects are properly allocated, there can be no assurance it will be successful. Moreover, the inability of one of the Group's consortium partners to fulfill its obligations on the project, including indemnity obligations to the Group, may have a material adverse impact on the financial results of the Group.

#### Limitations of liability

Liabilities arising out of the Group's contracts may include liabilities for customers' loss of profits and other liabilities that can vastly exceed the value of the contract in question. While the Group endeavors to include appropriate limitations of liability in its contracts, there can be no assurance that appropriate limitations will in fact be in place in all contracts or that such limitations will be enforceable under the applicable law.

#### Government contracts

A significant amount of the HYDRO business relates to projects with government entities. These projects can involve the performance, liability, and EPC/turnkey contract risks described above. Due to public bid requirements and local laws, it may not always be possible for the Group to obtain its desired contractual safeguards and thus it may remain more exposed to such risks in connection with these projects.

### Risks related to the capital markets

#### Dependence on the development of international financial markets

Apart from company-related occurrences, development of the ANDRITZ share price is also dependent on fluctuations in prices on the international financial markets. Major price fluctuations and high volatility on major stock markets may have an adverse effect on the ANDRITZ share price.

#### Recommendations by analysts

As a publicly listed company, ANDRITZ is regularly assessed by financial analysts and institutional investors. Analysts' recommendations to buy or sell ANDRITZ shares and subsequent investment decisions by shareholders may cause considerable fluctuations in the share price. The ANDRITZ GROUP has consistently followed a policy of open and transparent information exchange with shareholders and the financial community to minimize unfounded price fluctuations of its shares.

#### Active trading of ANDRITZ shares

The high level (about 70%) of public free float of ANDRITZ's total outstanding shares and the intensive investor relations activities have led to active trading in ANDRITZ shares on the Vienna Stock Exchange. There is no assurance, however, that active trading will be maintained in the future. If active trading was not maintained, the liquidity and market price of ANDRITZ shares would suffer adverse effects and investors may not be able to sell their shares at what they perceive to be an acceptable price. In the absence of active trading or in the event of a major change in market capitalization, the ANDRITZ share could be removed from various international industrial and stock exchange indices, for example the ATX, the leading index of the Vienna Stock Exchange, or other national and international indices. This could result in major changes in the price of the ANDRITZ share.

## REPORT OF THE SUPERVISORY BOARD

The Supervisory Board and the Executive Board held four meetings during the reporting period for in-depth discussions on the economic situation and strategic development of the company, as well as major events, capital expenditures, and other measures. In the course of regular reporting and in all meetings, the Executive Board informed the Supervisory Board, by means of detailed reports, on the business and financial situation of the Group and its affiliates, as well as on the situation regarding Human Resources, capital expenditure, and acquisition projects. Additional information was provided on special occurrences. The Chairman of the Supervisory Board and the Chief Executive Officer were also in regular contact to review the company's strategy, business development, and risk management.

Specific topics were discussed in two meetings in depth by the audit committee and subsequently reported on to the Supervisory Board. The Presidium of the Supervisory Board was informed regularly by the Executive Board on the current business development and acted on behalf of the company in matters concerning the Executive Board. None of the members of the Supervisory Board were absent from more than half of the meetings. All members of the audit committee attended the committee meetings.

With regard to the financial statements for 2010, the audit committee called in the annual auditor to attend its meeting on March 3, 2011 in order to review the financial statements, consolidated financial statements, the status report, and the Executive Board's proposal for appropriation of profits. In addition, a statement was drawn up on the auditor designated for business year 2011, his legal relationship with the ANDRITZ GROUP and the members of its Boards verified, the auditing fees negotiated, and a recommendation for the auditor appointment was made. As further items on the agenda, the audit committee dealt with implementation of the risk management system in the company, the audits, and the audit schedule for the Internal Auditing department.

At the meeting of the audit committee held on December 1, 2011, the Supervisory Board – with the auditor also present – discussed organization, scheduling, and auditing of the 2011 financial statements, as well as a report by the Executive Board on the form and functioning mode of the internal control system. In addition, the Supervisory Board adjusted the rules of procedure for the Executive Board and the Supervisory Board to the changed economic and legal requirements.

The Annual General Meeting of March 29, 2011 re-elected DDipl.-Ing. Klaus Ritter as a member of the company's Supervisory Board for the maximum period stipulated in the Articles of Association, i.e. until the end of the Annual General Meeting which decides on the discharge for the business year 2015. In its meeting on March 3, 2011, the Supervisory Board reviewed the Corporate Governance of the Group.

At the Supervisory Board meeting following the Annual General Meeting on March 29, 2011, and held on the same day, Hon. Prof. DDr. Hellwig Torggler was elected as Chairman and Mag. Kurt Stiassny as Deputy Chairman. Mag. Stiassny stepped down as Deputy Chairman of the Supervisory Board, as member of the nomination and remuneration committee for Executive Board matters, and from the audit committee, effective as of August 25, 2011. At the meeting on August 25, 2011, DDipl.-Ing. Klaus Ritter was elected as Deputy Chairman of the Supervisory Board, as Deputy Chairman of the audit committee, and as member of the nomination and remuneration committee, and Dipl.-Ing Peter Mitterbauer was elected as member and Deputy Chairman of the nomination and remuneration committee. During the meeting on December 1, 2011, the current business development and how it is influenced by the Euro crisis, the forecast for the 2011 results, the budget for 2012, and the medium-term planning were discussed in detail.

The financial statements and status report of ANDRITZ AG and the consolidated financial statements for 2011 drawn up according to IFRS were audited (including the accounts) and certified by Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna, who had been appointed as auditors by the Annual General Meeting of Shareholders. The Supervisory Board examined the documents in accordance with Article 96 of the Corporation Act and approved the financial statements, which are hereby adopted in accordance with Article 96, para. 4 of the Corporation Act. The Supervisory Board also checked and approved the proposed appropriation of profits submitted by the Executive Board.

Graz, February 2012

Hellwig Torggler m. p.

Chairman of the Supervisory Board



## STATEMENT BY THE EXECUTIVE BOARD

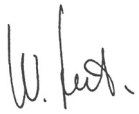
### Statement by the Executive Board, pursuant to Article 82 (4) of the (Austrian) Stock Exchange Act

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group as required by the applicable accounting standards and that the Group status report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the Group faces.

We confirm to the best of our knowledge that the financial statements of the parent company give a true and fair view of the assets, liabilities, financial position, and profit or loss as required by the applicable accounting standards and that the status report gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.

Graz, February 2012

The Executive Board of ANDRITZ AG



Wolfgang Leitner  
President and CEO



Karl Hornhofer  
PULP & PAPER  
(Capital Systems)



Humbert Köfler  
PULP & PAPER  
(Service & Units),  
SEPARATION



Friedrich Papst  
METALS,  
FEED & BIOFUEL,  
HYDRO



Wolfgang Semper  
HYDRO

# AUDITOR'S REPORT

## Report on the financial statements

We have audited the accompanying financial statements, including the accounting system, of Andritz AG, Graz, for the fiscal year from January 1, 2011 to December 31, 2011. These financial statements comprise the balance sheet as of December 31, 2011, the income statement for the fiscal year ended December 31, 2011, and the notes.

## Management's responsibility for the financial statements and for the accounting system

The company's management is responsible for the accounting system and for the preparation and fair presentation of these financial statements in accordance with Austrian Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility and description of type and scope of the statutory audit

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of the company as of December 31, 2011 and of its financial performance for the fiscal year from January 1, 2011 to December 31, 2011 in accordance with Austrian Generally Accepted Accounting Principles.

## Comments on the management report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the other disclosures are not misleading with respect to the company's position. The auditor's report also has to contain a statement as to whether the management report is consistent with the financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report is consistent with the financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, February 23, 2012

**Deloitte.**

Deloitte Audit Wirtschaftsprüfungs GmbH

Manfred GERITZER m. p.

Nikolaus MÜLLER m. p.

(Austrian) Certified Public Accountants

## AUDITOR'S REPORT

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of ANDRITZ AG, Graz, for the fiscal year from January 1, 2011 to December 31, 2011. These consolidated financial statements comprise the consolidated statement of financial position as of December 31, 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ended December 31, 2011, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the consolidated financial statements and for the accounting system

The company's management is responsible for the group accounting system and for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility and description of type and scope of the statutory audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of December 31, 2011 and of its financial performance and its cash flows for the fiscal year from January 1, 2011 to December 31, 2011 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

### Comments on the management report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report for the Group is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, February 23, 2012

**Deloitte.**

Deloitte Audit Wirtschaftsprüfungs GmbH

Manfred GERITZER m. p.

Nikolaus MÜLLER m. p.

(Austrian) Certified Public Accountants

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of December 31, 2011

<i>(in TEUR)</i>	<i>Notes</i>	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>			
Intangible assets	1.	77,238	62,042
Goodwill	2.	284,713	255,063
Property, plant, and equipment	1.	433,369	408,023
Shares in associated companies	3.	13,428	22,110
Other investments	4.	235,890	19,986
Non-current receivables and other non-current assets	5./ 8./ 10.	55,480	39,309
Deferred tax assets	21.	107,180	91,704
<b>Non-current assets</b>		<b>1,207,298</b>	<b>898,237</b>
Inventories	6.	411,743	334,912
Advance payments made	7.	141,291	105,752
Trade accounts receivable	8.	581,367	510,148
Cost and earnings of projects under construction in excess of billings	9.	290,490	339,886
Other current receivables	10.	319,366	252,159
Marketable securities		445,159	406,728
Cash and cash equivalents		1,169,888	1,187,946
<b>Current assets</b>		<b>3,359,304</b>	<b>3,137,531</b>
<b>TOTAL ASSETS</b>		<b>4,566,602</b>	<b>4,035,768</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Share capital		104,000	104,000
Capital reserves		36,476	36,476
Retained earnings	11.	756,193	616,141
<b>Equity attributable to shareholders of the parent</b>		<b>896,669</b>	<b>756,617</b>
<b>Non-controlling interests</b>		<b>42,204</b>	<b>37,763</b>
<b>Total shareholders' equity</b>		<b>938,873</b>	<b>794,380</b>
Bonds – non-current	14.	357,706	372,880
Bank loans and other financial liabilities – non-current	14.	11,422	19,128
Obligations under finance leases – non-current	14.	7,696	8,163
Provisions – non-current	12./ 13.	301,496	218,968
Other liabilities – non-current	15.	14,135	14,639
Deferred tax liabilities	21.	85,155	79,796
<b>Non-current liabilities</b>		<b>777,610</b>	<b>713,574</b>
Bank loans and other financial liabilities – current	14.	58,713	39,669
Obligations under finance leases – current	14.	757	748
Trade accounts payable		438,596	305,340
Billings in excess of cost and earnings of projects under construction	9.	1,068,292	993,706
Advance payments received		85,410	91,358
Provisions – current	12.	365,809	363,784
Liabilities for current taxes		46,006	46,038
Other liabilities – current	15.	786,536	687,171
<b>Current liabilities</b>		<b>2,850,119</b>	<b>2,527,814</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>4,566,602</b>	<b>4,035,768</b>

The following notes to the consolidated financial statements form an integral part of this consolidated statement of financial position.

# CONSOLIDATED INCOME STATEMENT

## For the year ended December 31, 2011

<i>(in TEUR)</i>	<i>Notes</i>	<b>2011</b>	<b>2010</b>
<b>Sales</b>	16.	<b>4,595,993</b>	<b>3,553,787</b>
Changes in inventories of finished goods and work in progress		56,299	(55,886)
Capitalized cost of self-constructed assets		1,003	1,212
		<b>4,653,295</b>	<b>3,499,113</b>
Other operating income	17.	84,763	72,291
Cost of materials		(2,807,121)	(1,981,379)
Personnel expenses	18.	(995,402)	(827,457)
Other operating expenses	19.	(549,383)	(455,282)
<b>Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)</b>		<b>386,152</b>	<b>307,286</b>
Depreciation, amortization and impairment of intangible assets and property, plant, and equipment	1.	(72,456)	(61,806)
Impairment of goodwill	2.	(1,000)	0
<b>Earnings Before Interest and Taxes (EBIT)</b>		<b>312,696</b>	<b>245,480</b>
Income/(expense) from associated companies		(1,747)	156
Interest result		10,957	2,111
Other financial result		(161)	180
<b>Financial result</b>	20.	<b>9,049</b>	<b>2,447</b>
<b>Earnings Before Taxes (EBT)</b>		<b>321,745</b>	<b>247,927</b>
Income taxes	21.	(90,277)	(70,958)
<b>NET INCOME</b>		<b>231,468</b>	<b>176,969</b>
Thereof attributable to:			
Shareholders of the parent		230,658	179,586
Non-controlling interests		810	(2,617)
Weighted average number of no-par value shares		51,348,733	51,543,778
Earnings per no-par value share (in EUR)	22.	4.49	3.48
Effect of potential dilution of share options		384,321	318,279
Weighted average number of no-par value shares and share options		51,733,054	51,862,057
Diluted earnings per no-par value share (in EUR)	22.	4.46	3.46
Proposed or paid dividend per no-par value share (in EUR)	11.	2.20	1.70

The following notes to the consolidated financial statements form an integral part of this consolidated income statement.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## For the year ended December 31, 2011

<i>(in TEUR)</i>	<i>Notes</i>	<b>2011</b>	<b>2010</b>
<b>Net income</b>		<b>231,468</b>	<b>176,969</b>
Currency translation adjustments		(3,995)	33,501
Actuarial gains/(losses)		(21,794)	3,731
Taxes on actuarial gains/(losses)		4,681	(633)
Changes to IAS 39 reserve	<i>KJ</i>	(1,931)	577
Taxes on changes to IAS 39 reserve	<i>KJ</i>	479	(129)
<b>Other comprehensive income for the year</b>		<b>(22,560)</b>	<b>37,047</b>
<b>Total comprehensive income for the year</b>		<b>208,908</b>	<b>214,016</b>
Thereof attributable to:			
Shareholders of the parent company		210,181	214,194
Non-controlling interests		(1,273)	(178)

The following notes to the consolidated financial statements form an integral part of this consolidated statement of comprehensive income.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2011

(in TEUR)	Notes	Attributable to shareholders of the parent						Non- control- ling in- terests	Total share- holders' equity	
		Share capital	Capital reserves	Other retained earnings	IAS 39 re- serve	Actu- arial gains (losses)	Cur- rency trans- lation adjust- ments			Total
<b>Status as of January 1, 2010</b>		<b>104,000</b>	<b>36,476</b>	<b>521,366</b>	<b>1,157</b>	<b>(4,802)</b>	<b>(28,847)</b>	<b>629,350</b>	<b>34,142</b>	<b>663,492</b>
Total comprehensive income for the year				179,586	491	3,109	31,008	214,194	(178)	214,016
Dividends	11.			(51,741)				(51,741)	(1,545)	(53,286)
Changes from acquisitions				(902)			466	(436)	(3,181)	(3,617)
Capital increase								0	8,525	8,525
Changes concerning own shares				(37,788)				(37,788)		(37,788)
Changes concerning share option programs	13.			3,232				3,232		3,232
Other changes				(178)			(16)	(194)		(194)
<b>STATUS AS OF DECEMBER 31, 2010</b>		<b>104,000</b>	<b>36,476</b>	<b>613,575</b>	<b>1,648</b>	<b>(1,693)</b>	<b>2,611</b>	<b>756,617</b>	<b>37,763</b>	<b>794,380</b>
<b>Status as of January 1, 2011</b>		<b>104,000</b>	<b>36,476</b>	<b>613,575</b>	<b>1,648</b>	<b>(1,693)</b>	<b>2,611</b>	<b>756,617</b>	<b>37,763</b>	<b>794,380</b>
Total comprehensive income for the year				230,658	(1,459)	(17,058)	(1,960)	210,181	(1,273)	208,908
Dividends	11.			(86,857)				(86,857)	(3,063)	(89,920)
Capital increase								0	8,777	8,777
Changes concerning own shares				13,534				13,534		13,534
Changes concerning share option programs	13.			2,539				2,539		2,539
Other changes				655				655		655
<b>STATUS AS OF DECEMBER 31, 2011</b>		<b>104,000</b>	<b>36,476</b>	<b>774,104</b>	<b>189</b>	<b>(18,751)</b>	<b>651</b>	<b>896,669</b>	<b>42,204</b>	<b>938,873</b>

The following notes to the consolidated financial statements form an integral part of this consolidated statement of changes in equity.

# CONSOLIDATED STATEMENT OF CASH FLOWS

## For the year ended December 31, 2011

<i>(in TEUR)</i>	<i>Notes</i>	<b>2011</b>	<b>2010</b>
<b>Earnings Before Taxes (EBT)</b>		<b>321,745</b>	<b>247,927</b>
Interest result		(10,957)	(2,111)
Depreciation, amortization, write-ups and impairment of fixed assets		73,456	61,806
Expense/(income) from associated companies		1,747	(156)
Changes in non-current provisions		11,553	(9,914)
Losses/(gains) from the disposal of fixed and financial assets		(727)	(2,281)
Other non-cash expenses/(income)		2,991	387
Taxes paid		(102,345)	(73,553)
Interest received		29,025	20,955
Interest paid		(16,540)	(14,116)
<b>Gross cash flow</b>		<b>309,948</b>	<b>228,944</b>
Changes in inventories		(53,548)	36,889
Changes in advance payments made		(35,642)	810
Changes in receivables		(99,225)	29,918
Changes in current provisions		721	24,266
Changes in advance payments received		(15,747)	16,763
Changes in liabilities		327,290	366,930
<b>Cash flow from operating activities</b>		<b>433,797</b>	<b>704,520</b>
Payments received for asset disposals		3,927	12,796
Payments made for investments in property, plant, and equipment and intangible assets		(76,974)	(68,767)
Payments made for investments in non-current financial assets		(197,837)	(10,433)
Cash flows from acquisition of subsidiaries	//	(65,195)	(57,907)
Other changes in consolidation range		2,518	1,841
Payments made for current investments of liquid funds		(49,410)	(27,344)
<b>Cash flow from investing activities</b>		<b>(382,971)</b>	<b>(149,814)</b>
Changes in interest-bearing borrowings		(10,581)	(8,635)
Dividends paid by ANDRITZ AG		(86,857)	(51,741)
Other changes in non-controlling interests		6,282	(5,162)
Payments concerning own shares		13,534	(37,788)
<b>Cash flow from financing activities</b>		<b>(77,622)</b>	<b>(103,326)</b>
<b>Change in cash and cash equivalents</b>		<b>(26,796)</b>	<b>451,380</b>
Change in cash and cash equivalents resulting from exchange rate fluctuations		8,738	27,034
<b>Cash and cash equivalents at the beginning of the period</b>		<b>1,187,946</b>	<b>709,532</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>1,169,888</b>	<b>1,187,946</b>

The following notes to the consolidated financial statements form an integral part of this consolidated statement of cash flows.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2011

## A) GENERAL

ANDRITZ AG ("ANDRITZ") is incorporated under the laws of the Republic of Austria and has been listed on the Vienna Stock Exchange since June 2001. The ANDRITZ GROUP (the "Group") is a leading producer of high-technology industrial machinery and operates through five strategic business areas: HYDRO, PULP & PAPER, SEPARATION, METALS, and FEED & BIOFUEL.

The average number of employees in the Group was 16,280 in 2011 and 13,776 in 2010. The registered office address of the Group's headquarters is at Stattegger Strasse 18, 8045 Graz, Austria.

The consolidated financial statements are the responsibility of the Executive Board and are acknowledged by the Supervisory Board.

Various amounts and percentages set out in these consolidated financial statements have been rounded and consequently may not total.

## B) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the consolidated financial statements of ANDRITZ are as follows:

### a) General

The financial statements were prepared in accordance with all standards published by the International Accounting Standards Board (IASB) endorsed by the European Union, application of which is mandatory for 2011. All interpretations published by the International Financial Reporting Interpretations Committee (IFRIC), application of which is also mandatory for 2011, have been applied.

ANDRITZ applies the amendments to IFRS 3 "Business Combinations" (revised) and IAS 24 (revised) "Related Party Disclosures" for the financial year beginning on January 1, 2011.

As part of the improvements, IFRS 3 (revised) was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other types of non-controlling interests (e. g. management share options classified as equity) are measured at their acquisition-date fair value unless another measurement basis is required by other Standards.

The amendments to IFRIC 14 "Prepayments of a Minimum Funding Requirement" now allow recognition of an asset in the form of prepaid minimum funding contributions.

IAS 24 (revised) has been revised in the following two aspects: (a) IAS 24 (revised) has changed the definition of a related party and (b) IAS 24 (revised) introduces a partial exemption from the disclosure requirements for government-related entities.

ANDRITZ has not applied the following new and revised IFRSs that have been issued, but are not yet in effect:

Standard/Interpretation	Title	Effective for annual financial statements for periods beginning on or after
Amendments to IFRS 7	Disclosures - Transfer of Financial Assets	July 1, 2011
IFRS 9	Financial Instruments	January 1, 2015
IFRS 10	Consolidated Financial Statements	January 1, 2013
IFRS 11	Joint Arrangements	January 1, 2013
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13	Fair Value Measurement	January 1, 2013
Amendments to IAS 1	Presentation of Items of other Comprehensive Income	July 1, 2012
Amendments to IAS 12	Deferred Tax – Recovery of Underlying Assets	January 1, 2012
IAS 19 (as revised in 2011)	Employee Benefits	January 1, 2013
IAS 27 (as revised in 2011)	Separate Financial Statements	January 1, 2013
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures	January 1, 2013
IAS 32 (as revised in 2011)	Offsetting Financial Assets and Financial Liabilities	January 1, 2014

This list shows the summary of the changes relevant for ANDRITZ. These changes could have an effect on future transactions, and this possibility is currently being evaluated.

#### **b) Reporting currency**

The consolidated financial statements are presented in Euros.

#### **c) Principles of consolidation**

The consolidated financial statements of the Group include ANDRITZ AG and the companies that it controls, except where the subsidiary's effect on the Group's financial position, financial performance and cash flows is immaterial. This control basically exists where ANDRITZ owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital, thus being able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position and consolidated income statement. The purchase method of accounting is used for acquired businesses. Companies acquired or sold during the year are included in or excluded from the consolidated financial statements as from the date of acquisition or date of disposal.

Inter-company balances and transactions, including unrealized inter-company profits and losses, have been eliminated. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

### **C) ACQUISITIONS**

In January 2011, ANDRITZ acquired 100% of AE&E Austria GmbH & Co KG, now ANDRITZ Energy & Environment, thus strengthening and extending the product portfolio in the PULP & PAPER business area. ANDRITZ Energy & Environment also specializes in fluidized bed technology for boiler plants and in flue gas cleaning systems.

By acquiring 100% of the Canadian company Hemicycle Controls in June 2011, the HYDRO business area has extended and strengthened its automation business, in particular in North America. Hemicycle Controls is an established supplier of automation systems for hydropower plants.

The PULP & PAPER business area has strengthened and expanded its service portfolio in the wood processing sector by acquiring 100% of Iggesund Tools International AB, with headquarters in Iggesund, Sweden, in September 2011. ANDRITZ Iggesund Tools supplies chipping and debarking equipment for pulp mills and saw mills.

In September 2011, assets from Tristar Industries were acquired, a service and manufacturing centre for the PULP & PAPER service business.

ANDRITZ acquired 100% of Asselin-Thibeau, France, affiliate of French NSC Group in November 2011. ANDRITZ Asselin-Thibeau delivers systems for the production of dry nonwovens (especially for applications in the textile and hygiene sectors). In combination with the well-proven products and technologies of ANDRITZ Küsters and ANDRITZ Perfojet, the PULP & PAPER business area can now offer its customers complete system solutions for the production of nonwovens.

Since their acquisition, these companies have contributed TEUR 224,001 to the ANDRITZ GROUP's sales and TEUR 12,048 to the ANDRITZ GROUP's EBIT. If the businesses had been acquired at the beginning of 2011, the Group's Sales would have been TEUR 4,651,677 and the Group's EBIT would have decreased to TEUR 307,590.

The aggregated purchase price of the business combinations effected in 2011 amounted to TEUR 73,732, while direct costs of acquisition amounted to TEUR 1,158.

The estimated fair values of the assets acquired and liabilities assumed are as follows:

<i>(in TEUR)</i>	<b>IFRS Carrying amount</b>	<b>Fair value allocations</b>	<b>Fair value</b>
Intangible assets	414	32,845	33,259
Property, plant, and equipment	10,957	0	10,957
Inventories	23,812	0	23,812
Receivables	58,978	0	58,978
Payables	(80,966)	(5,637)	(86,603)
<b>Non-interest-bearing net assets</b>	<b>13,195</b>	<b>27,208</b>	<b>40,403</b>
Marketable securities	4,035	0	4,035
Cash and cash equivalents	8,537	0	8,537
Financial assets	1,010	0	1,010
Financial liabilities	(10,231)	0	(10,231)
Goodwill	0	29,978	29,978
<b>Net assets acquired</b>	<b>16,546</b>	<b>57,186</b>	<b>73,732</b>

The initial accounting for the businesses acquired in 2011 is based on preliminary figures as transition of the businesses' reporting according to IFRS is not finalized yet.

In January 2012, a further 22.2% stake in Hammerfest Strøm AS was acquired. Accounting for the business combination is incomplete, because of the pending integration of reporting according to IFRS. Consequently, no disclosures can be made.

## **D) ACCOUNTING AND VALUATION PRINCIPLES**

### **a) Intangible assets**

Intangible assets are accounted for at acquisition cost. After initial recognition, intangible assets are accounted for at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives. The amortization period and the amortization method are reviewed annually at each financial year-end.

#### **Concessions, industrial rights, and similar rights**

Amounts paid for concessions, industrial rights, and similar rights are capitalized and then amortized on a straight-line basis over the expected useful life. The expected useful lives vary from three to 15 years.

#### **Business combinations and goodwill**

For business combinations and goodwill, IFRS 3 (revised) has been applied. According to this standard, goodwill is measured as the residual of the cost of the business combination after recognizing the acquiree's identifiable assets, liabilities, and contingent liabilities. From 2005 onwards, any goodwill arising from business combinations is no longer amortized. Goodwill is tested for impairment in accordance with IAS 36 at least annually, or more frequently if events or changes in circumstances indicate that it might be impaired. In determining whether the recognition of an impairment loss is required, goodwill is allocated to the cash-generating units that are expected to benefit from the synergies of the business combination. If the carrying amount exceeds the value in use that is calculated by using a Discounted Cash-Flow (DCF) calculation, an impairment loss is recognized. An impairment loss recognized for goodwill will not be reversed in a subsequent period.

Future payment surpluses are based on internal forecasts, which are prepared in detail for the next business year and with simplifications for the following two years, and reflect the historical performance and the Executive Board's best estimates on future developments. After this detailed planning phase, a constant level is assumed provided that there are no fundamental reasons not to do so. The discount rate used for DCF calculation is based on an interest rate which represents the actual assessment of possible changes in exchange rates as well as specific risks of an asset. Under consideration of the applicable currency and the corresponding risk profile, a discount rate between 10.71% and 16.67% was applied.

Substantial goodwill was allocated at the acquisition date to existing cash-generating units of ANDRITZ AG (1999), of the pulp business acquired through the ANDRITZ-Ahlstrom Group (2000/2001) as well as of the VA TECH HYDRO Group in the HYDRO business area (2006).

After reassessment of the identification and measurement of the acquiree's identifiable assets, liabilities, and contingent liabilities, and measurement of the cost of the business combination, any negative goodwill is recognized as gain in the income statement.

**b) Property, plant, and equipment**

Property, plant, and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. When assets are sold or retired, their costs and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

The acquisition cost of property, plant, and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of putting the asset into working condition and bringing it to the appropriate location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repair, maintenance and overhaul costs, are charged to income statement in the period in which the costs are incurred. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Machinery and technical equipment	4-10 years
Tools, office equipment, and vehicles	3-10 years

The useful life and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Assets under construction are considered as plant and properties under construction and are stated at cost. These include production costs and other direct costs.

**c) Financial assets and shares in associated companies**

These non-current assets consist primarily of shares in associated companies, non-current securities, loans against borrowers' notes, shares in not consolidated companies and loans.

Investments in associated companies (generally investments of between 20% and 50% in a company's equity) where a significant influence is exercised by the Group are accounted for by using the equity method. An assessment of carrying amounts of shares in associates is performed when there is an indication that the asset has been impaired or that the impairment losses recognized in prior years no longer exist.

Non-current securities are initially recognized at acquisition costs including transaction costs and are classified as available-for-sale investments. In subsequent periods, these non-current assets are valued at fair value. Changes of these fair values are recognized as gains or losses directly in equity until the security is disposed of or is determined to be impaired. At that time, the cumulative gain or loss previously recognized in equity is included in the income statement of the period. Interest on these non-current assets is recognized directly in the income statement in the period it incurs. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost.

**d) Finished goods, work in progress, materials, and supplies**

Inventories, including work in progress and unfinished services, are valued at the lower of cost and net realizable value after provision for obsolete and slow-moving items. The net realizable value is the selling price in the ordinary course of business minus costs of completion, marketing, and distribution. Cost is determined primarily on the basis of the FIFO method. For processed inventories, cost includes the applicable allocation of fixed and variable overhead costs. Unrealizable inventory is fully written off. Contracts other than construction contracts are valued at production costs. For these contracts, the revenue is recognized when the ownership of the goods is transferred ("completed contract method").

**e) Construction contracts**

Receivables from construction contracts and the related sales are accounted for using the percentage of completion method. The construction contracts are determined by the terms of the individual contract, which are agreed at fixed prices. The extent of completion ("stage of completion") is established by the cost-to-cost method. Reliable estimates of the total costs and sales prices and the actual figures of the accumulated costs are available on a monthly basis. Estimated contract profits are recorded in earnings in proportion to recorded sales. In the cost-to-cost method, sales and profits are recorded after considering the ratio of accumulated costs to the estimated total costs to complete each contract. Changes to total estimated contract costs and losses, if any, are recognized in the income statement in the period in which they are determined. For remaining technological and financial risks which might occur during the remaining construction period, an individually assessed amount is included in the estimated contract costs. Impending losses out of the valuation of construction contracts are recognized when it is probable that the total contract costs will exceed the contract revenues. For possible customer warranty claims, provisions are accounted for according to the profit realization. Upon completion of a contract, the remaining warranty risk is reassessed.

**f) Trade accounts receivable**

Receivables are stated at face value after allowances for doubtful accounts.

**g) Marketable securities**

Marketable securities consist of government bonds, bonds and securities of top-rated banks, and funds. They are held for the purpose of investing liquid funds and are not generally intended to be retained on a long-term basis. Marketable securities are initially recognized at acquisition costs, including transaction costs, and are classified as available-for-sale investments. In subsequent periods, marketable securities are valued at fair value. Changes of these fair values are recognized as gains or losses directly in equity, until the security is disposed of or is determined to be impaired. In case of a significant and not merely temporary decline in value, impairment is recognized in the income statement.

**h) Cash and cash equivalents**

Cash includes cash in hand and cash at banks. Cash equivalents might include short-term deposits with banks with original maturities of three months or less and that are not subject to any risk of change in value.

**i) Share capital**

Only ordinary shares exist, and all shares are issued and have the same rights.

The share capital of ANDRITZ AG amounts to TEUR 104,000 divided into 52 million shares of no-par value.

Based on authorizations of the Shareholders' Meeting and with approval from the Supervisory Board, the Executive Board adopted share buy-back and share resale programs for buying up to 5,200,000 own shares between October 1, 2008 and March 31, 2011 and between April 6, 2011 and September 30, 2013.

In 2011, 375,000 own shares were bought back at an average price of EUR 60.72. In addition, 1,011,200 own shares were resold at a price of EUR 35.44 per share to eligible executives under the management share option plan and 6,866 own shares were transferred to employees of ANDRITZ in the course of employee participation programs. As of December 31, 2011, the company held 412,197 own shares at a market value of TEUR 26,422. It is planned to use these shares for the management share option plan and the employee participation programs.

**j) Capital reserves**

Capital Reserves are created in accordance with Austrian legal requirements and include share premium amounts.

**k) Retained earnings**

Retained earnings particularly include retained income, IAS 39 reserve, actuarial gains and losses, and currency translation adjustments.

**l) Provisions**

A provision is recognized when, and only when, the enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is significant, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

**m) Financial instruments under IAS 39 and IFRS 7****Financial assets**

A financial instrument is a contract between two entities which creates a financial asset at one entity and a financial liability or equity instrument at another entity. If the Group qualifies as a party to the contract concerning the contract regulations, a financial asset or financial liability is recognized in the consolidated statement of financial position in accordance with the substance of the contractual arrangement. Financial assets and liabilities include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, non-current receivables, borrowings, issued bonds, and other investments.

Financial instruments are recognized and derecognized on the trade date. This is the day of purchase or sale of a financial asset on which the contract terms require delivery of the financial asset within the time frame established by the market concerned, and financial assets are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value without transaction costs. Financial instruments are offset when the Group has a legally en-

forceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets can be classified into the following specified categories: financial assets “at Fair Value Through Profit or Loss” (FVTPL), “held-to-maturity investments”, “Available For Sale” (AFS) financial assets, and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The ANDRITZ GROUP classifies its financial assets either under FVTPL, loans, and receivables, or AFS.

#### Financial assets at FVTPL

The ANDRITZ GROUP classifies its financial assets at FVTPL if the financial asset is held for trading, which applies only to derivatives. The Group uses derivative financial instruments to manage its exposure to foreign exchange rate risk, changes in fair value of the bonds, and commodity price risk. Financial assets at FVTPL are stated at fair value, with any resulting gain or loss recognized in profit or loss unless the derivative is accounted for as a cash flow hedge with gains and losses recognized in equity.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently reassessed to their fair value at each balance sheet date. Depending on the fair value of the derivative, it is recognized either under “other receivables” or “other liabilities”, respectively, under bank loans and other financial liabilities.

#### AFS financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, or loans and receivables. Equity securities (e.g. shares), debt securities (e.g. bonds), and other investments (e.g. fund shares) held by the ANDRITZ GROUP are designated as AFS financial assets.

AFS financial assets are stated at fair value. Gains and losses resulting from changes in fair value are recognized directly in equity in the investments revaluation reserve (IAS 39 reserve) with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized directly through profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period. Dividends on AFS equity instruments are recognized in profit or loss when the Group’s right to receive payments is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

#### Loans and receivables

The ANDRITZ GROUP classifies trade receivables, cost and earnings of projects under construction in excess of billings, loans, and other receivables with fixed or determinable payments that are not quoted in an active market as “loans and receivables”. Loans and receivables are measured at amortized costs less any impairment.

#### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively impacted. For financial assets carried at amortized costs, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized through profit or loss.

The previously recognized impairment loss is reversed through profit or loss up to the extent of the initial impairment if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. The reversal shall not result in a



carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The exceptions are AFS equity instruments, for which any increase in fair value subsequent to an impairment loss is recognized directly in equity.

#### Financial liabilities and equity instruments issued by the Group – classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

#### Financial liabilities

Financial liabilities can be classified either as financial liabilities at FVTPL or other financial liabilities.

#### Financial liabilities at FVTPL

The ANDRITZ GROUP classifies financial liabilities at FVTPL if the financial liability is held for trading, which applies only to derivatives. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, changes in fair value of the bonds, and commodity price risk. Financial liabilities at FVTPL are stated at fair value, with any resulting gain or loss recognized in profit or loss unless the derivative is accounted for as a cash flow hedge with gains and losses recognized in equity.

#### Other financial liabilities measured at amortized costs

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Subsequently, they are measured at amortized costs using the effective interest method, with interest expense recognized on an effective yield basis.

#### Fair value of financial instruments

The fair value of financial assets (liabilities) is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. In this context, a quoted market price is the best evidence for the fair value if financial assets (liabilities) are traded on active markets. If no active market exists, generally accepted valuation techniques are used to determine what the price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, and if available reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If no quoted market price and no reliable valuation techniques are available, the financial instrument is measured at acquisition cost.

#### Effective interest method and amortized costs

The effective interest method is a method of calculating the amortized costs of a financial asset (liability) and of allocating interest income (expenses) over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset (liability), or, where appropriate, a shorter period. Interest is recognized on a time proportion basis that reflects the effective interest rate of the asset (liability).

#### Hedge accounting

The Group designated the bonds issued and the corresponding interest rate swaps as being a hedging relationship accounted for as a fair value hedge according to IAS 39. At the inception of the hedge relationship, the ANDRITZ GROUP documented the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the swaps are highly effective in offsetting changes in fair values or cash flows of the hedged item.

#### Fair value hedge

Applying the rules for hedge accounting, the impact is that the gain or loss from remeasurement of the hedging instrument at fair value is recognized through profit or loss. The gain or loss on the hedged item attributable to the changes of the hedged risk results in an adjustment of the carrying amount of the hedged item, which is also recognized through profit or loss. In this manner, the gains and losses resulting from the changes in fair value of the hedging instrument and the hedged item offset each other if the hedge is 100% effective. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

#### Cash flow hedge

The Group uses forward commodity contracts to mitigate exposure to commodity price risk out of projects. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized directly in the IAS 39 reserve in shareholders' equity. Otherwise, for all other cash flow hedges, gains and losses initially recognized in equity are transferred from IAS 39 reserve to net profit or loss in the same period or periods during which the hedged firm commitment or forecast transaction affects the income statement.

#### n) Other accounting and valuation principles

##### Research and development costs

Expenditure for research and development is charged as expense in the period incurred because the criteria for capitalization of development costs (IAS 38) are not met. In 2011, TEUR 65,641 and in 2010, TEUR 52,545 were recognized as expenses.

##### Government grants

Investment grants are deducted from the cost of the asset. Grants related to income are recorded as other operating income in the income statement.

##### Revenue recognition (except for construction contracts)

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognized net of sales taxes and discounts when delivery has taken place and transfer of risks and rewards has been completed. Interest is recognized on a time-proportion basis that reflects the effective interest rate of the asset. Dividends are recognized when the shareholders' right to receive payment is established.

##### Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are basically capitalized as part of the cost of the asset. All other costs of borrowing are expensed in the period in which they are incurred.

##### Impairment of assets

Property, plant, and equipment, and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount (the higher of fair value less costs to sell and value in use), an impairment loss is recognized. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit.

##### Management share option plans

Due to the fact that the management share option plans do not include cash-settlements, these corresponding expenses are recorded directly as equity, according to the International Financial Reporting Standards.

#### o) Foreign currency

##### Foreign currency transactions

Foreign currency transactions are recorded in the functional currency by applying the exchange rate between the functional currency and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the periods are recognized in the income statement in the period in which they arise.

##### Foreign entities

Foreign consolidated subsidiaries are regarded as foreign entities since they are financially, economically, and organizationally autonomous. Their functional currencies are the respective local currencies. Financial statements of foreign consolidated subsidiaries are translated at year-end rates to the presentation currency (EUR) with respect to the statement of financial position. Expense and revenue items are translated using the average exchange rates for the year. All resulting translation differences are included in currency translation adjustments in equity.

The major exchange rates used for foreign currency translation developed as follows during the reporting year:

In number of units per 1 EUR		Rate at reporting date		Average rate for year	
		December 31, 2011	December 31, 2010	2011	2010
BRL	Brazilian Real	2.42	2.22	2.32	2.35
CAD	Canadian Dollar	1.32	1.33	1.38	1.37
CHF	Swiss Franc	1.22	1.25	1.23	1.38
CNY	Yuan Renminbi	8.16	8.82	8.99	9.00
DKK	Danish Kroner	7.43	7.45	7.45	7.45
GBP	Pound Sterling	0.84	0.86	0.87	0.86
INR	Indian Rupee	68.71	59.76	65.18	60.97
SEK	Swedish Kronor	8.91	8.97	9.03	9.56
USD	US Dollar	1.29	1.34	1.39	1.33

As from 2005, any goodwill arising from the acquisition of a foreign entity is allocated to the acquired entity and is recorded using the exchange rate effective on the balance sheet date.

#### p) Employee benefits

##### Pension plans

Some Group companies provide defined benefit pension plans for certain employees. The obligations are valued every year by professionally qualified independent actuaries. The obligation and costs of pension benefits are determined using the projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Past service costs are recognized on a straight-line basis over the average period until the amended benefits become vested. Gains or losses on the curtailment or settlement of pension benefits are recognized when the curtailment or settlement occurs. In accordance with IAS 19.93A, actuarial gains and losses affecting provisions for pensions are recognized in equity in the year in which they occur with no effect on profit or loss. Interest expenses resulting from employee benefits are included in the consolidated income statement under interest result. The pension obligation is measured at the present value of estimated future cash flows using different discount rates for different countries.

Other Group companies provide defined contribution plans for certain employees. The related costs are expensed as they occur.

##### Severance obligation

In certain countries the Group is obliged by law to pay termination indemnities in some cases of termination of employment. No termination indemnities are payable for voluntary termination at the request of the employee. Expenses related to termination indemnities are accrued. The obligations are valued every year by professionally qualified independent actuaries. The obligation and costs of pension benefits are determined using the projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Past service costs are recognized on a straight-line basis over the average period until the amended benefits become vested. Gains or losses on the curtailment or settlement of employee benefits are recognized when the curtailment or settlement occurs. In accordance with IAS 19.93A, actuarial gains and losses affecting provisions for severance are recognized in equity in the year in which they occur with no effect on profit or loss. Interest expenses resulting from employee benefits are included in the consolidated income statement under interest result. The severance obligation is measured at the present value of estimated future cash flows using different discount rates for different countries.

Other Group companies provide defined contribution plans for certain employees. The related costs are expensed as they occur.

#### q) Income taxes

The income tax charge is based on profit for the year and considers deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities and the amount used for income tax purposes.

Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of

deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to reverse.

Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Group reassesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Group recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilized.

Deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity, including exchange rate differences arising on the translation of inter-company loans.

#### **r) Use of estimates**

The preparation of the consolidated financial statements requires the Executive Board to make estimates and assumptions that can affect the reported amounts of assets, liabilities, revenues, and expenses as well as amounts reported in the notes. Actual results may differ from these estimates.

The Executive Board has made judgments in the process of applying the company's accounting policies. Additionally, at the balance sheet date, the Executive Board made the following key assumptions concerning the future and has identified other key sources of estimation uncertainty at the balance sheet date that bear a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

1. **Construction contracts:** The accounting for construction contracts is based on estimations for costs and recoverable earnings. Although these estimations are based on all information available on the balance sheet date, substantial changes after the balance sheet date are possible. These changes could lead to adjustments of assets and may influence earnings in subsequent periods.
2. **Employee benefits:** The valuation of the various pension plans is based on a methodology using some parameters, including the expected discount rate, rate of compensation and pension increase, and return on plan assets. If the relevant parameters develop materially differently than expected, this could have a material impact on the company's defined benefit obligation and subsequently, on the related expenses.
3. **Impairments:** The impairment analysis for goodwill, other intangible assets, and tangible assets is based primarily upon discounted estimated future cash flows from the use and eventual disposal of the assets. Factors like lower than anticipated sales and resulting decreases of net cash flows and changes in the discount rates used could lead to impairments. Regarding the carrying value of goodwill, intangible assets, and property, plant, and equipment, please refer to note F (notes to the consolidated statement of financial position).
4. **Management share option plans:** The share option plans are measured based on the fair value of the options on the granting date. The estimated fair value of these options is based on parameters such as volatility, interest rate, share price, duration of the option, and expected dividend.
5. **Deferred taxes:** In assessing the recoverability of deferred tax assets, the Executive Board considers whether it is probable that all the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. If the company does not generate sufficient taxable income, deferred tax assets on loss carry forwards cannot be used and a valuation allowance will need to be recorded.

#### **s) Contingencies**

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements, but disclosed when an inflow of economic benefits is probable.

## E) SEGMENTS

### Business areas

For management purposes, the Group is divided into five main business areas on a worldwide basis:

#### HYDRO

Electromechanical systems – in particular, turbines, hydropower generators, and turbo generators – and services for new hydropower stations as well as for modernizations of existing hydropower stations; pumps for the pulp and paper industry and for other applications (drinking water supply, etc.).

#### PULP & PAPER

Plants and services for the production of all types of pulp (chemical, mechanical, recycled fiber pulps), paper, board, tissue, and medium-density fiberboard (MDF); biomass boilers for power generation; systems for the production of plastic film.

#### SEPARATION

Note: The ENVIRONMENT & PROCESS business area was renamed SEPARATION as of October 1, 2011.

Plants, equipment, and services for solid/liquid separation for local authorities and certain industries (e.g. mining, chemical and petrochemical industries, food industry).

#### METALS

Production and finishing lines for metal strip, especially for carbon and stainless steel.

#### FEED & BIOFUEL

Plants, equipment, and services for the production of animal feed and biomass pellets, especially wood pellets.

The strategic business areas are the basis upon which the Group reports its primary segment information. Financial information on business and geographical segments is presented according to IFRS 8 "Operating Segments" in section H (segment information).

The accounting and valuation principles of the segments are the same as those described in note D.

According to the internal reporting structure, which is the basis for the primary segment information, all sales and all direct and indirect expenses (including overhead and administrative costs) are allocated to business areas and reflect the management structure of the organization and the predominant sources of risks and returns. The key measure of operating performance for the Group is Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). There are no substantial inter-segmental transactions. All consolidation effects related to income statement are included in the relevant business area.

Transition encompasses corporate assets and liabilities as well as consolidation effects and eliminations.

External revenues allocated by geographical segments are based on the geographical location of the company's customers.

There are no revenues from transactions with a single external customer that amount to 10% or more of the Group's revenues.

## F) NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### 1. Intangible assets and property, plant, and equipment

Acquisition or production costs

2011

<i>(in TEUR)</i>	<b>Balance as of January 1, 2011</b>	<b>Currency translation adjust- ments</b>	<b>Addi- tions</b>	<b>Changes in consoli- dation range</b>	<b>Dis- pos- als</b>	<b>Trans- fers</b>	<b>Balance as of December 31, 2011</b>
<b>Intangible assets</b>	<b>138,716</b>	<b>(194)</b>	<b>3,777</b>	<b>33,266</b>	<b>1,418</b>	<b>1,078</b>	<b>175,225</b>
Land and buildings	278,884	(125)	4,084	5,473	4,662	6,035	289,689
Technical equipment and machinery	311,537	(1,819)	19,683	4,371	5,683	29,573	357,662
Other equipment, factory and office equipment	110,641	(856)	15,373	1,109	6,679	6,611	126,199
Assets under construction and advance payments	44,673	(1,153)	34,057	0	165	(43,297)	34,115
<b>Total property, plant, and equipment</b>	<b>745,735</b>	<b>(3,953)</b>	<b>73,197</b>	<b>10,953</b>	<b>17,189</b>	<b>(1,078)</b>	<b>807,665</b>
<b>Total intangible and tangible assets</b>	<b>884,451</b>	<b>(4,147)</b>	<b>76,974</b>	<b>44,219</b>	<b>18,607</b>	<b>0</b>	<b>982,890</b>

2010

<i>(in TEUR)</i>	Balance as of January 1, 2010	Currency translation adjustments	Additions	Changes in consolidation range	Disposals	Transfers	Balance as of December 31, 2010
<b>Intangible assets</b>	<b>107,471</b>	<b>1,716</b>	<b>3,224</b>	<b>31,026</b>	<b>4,852</b>	<b>131</b>	<b>138,716</b>
Land and buildings	237,217	6,459	7,227	24,568	1,712	5,125	278,884
Technical equipment and machinery	274,766	9,690	16,715	5,002	8,655	14,019	311,537
Other equipment, factory and office equipment	106,794	3,698	13,877	1,627	16,567	1,212	110,641
Assets under construction and advance payments	35,912	3,707	27,724	737	2,920	(20,487)	44,673
<b>Total property, plant, and equipment</b>	<b>654,689</b>	<b>23,554</b>	<b>65,543</b>	<b>31,934</b>	<b>29,854</b>	<b>(131)</b>	<b>745,735</b>
<b>Total intangible and tangible assets</b>	<b>762,160</b>	<b>25,270</b>	<b>68,767</b>	<b>62,960</b>	<b>34,706</b>	<b>0</b>	<b>884,451</b>

Depreciation and amortization

2011

<i>(in TEUR)</i>	Balance as of January 1, 2011	Currency translation adjustments	Depreciation, amortization and impairment	Changes in consolidation range	Disposals	Transfers	Balance as of December 31, 2011
<b>Intangible assets</b>	<b>76,674</b>	<b>(72)</b>	<b>22,916</b>	<b>0</b>	<b>1,380</b>	<b>(151)</b>	<b>97,987</b>
Land and buildings	92,303	652	8,626	0	4,033	137	97,685
Technical equipment and machinery	175,244	452	26,548	0	3,994	39	198,289
Other equipment, factory and office equipment	70,165	(113)	14,366	(74)	5,997	(25)	78,322
Assets under construction and advance payments	0	0	0	0	0	0	0
<b>Total property, plant, and equipment</b>	<b>337,712</b>	<b>991</b>	<b>49,540</b>	<b>(74)</b>	<b>14,024</b>	<b>151</b>	<b>374,296</b>
<b>Total intangible and tangible assets</b>	<b>414,386</b>	<b>919</b>	<b>72,456</b>	<b>(74)</b>	<b>15,404</b>	<b>0</b>	<b>472,283</b>

2010

<i>(in TEUR)</i>	Balance as of January 1, 2010	Currency translation adjustments	Depreciation, amortization and impairment	Changes in consolidation range	Disposals	Transfers	Balance as of December 31, 2010
<b>Intangible assets</b>	<b>63,253</b>	<b>1,239</b>	<b>16,991</b>	<b>7</b>	<b>4,852</b>	<b>36</b>	<b>76,674</b>
Land and buildings	83,531	1,727	7,514	0	782	313	92,303
Technical equipment and machinery	156,712	3,283	24,391	75	8,935	(282)	175,244
Other equipment, factory and office equipment	68,455	1,908	12,910	(252)	12,789	(67)	70,165
Assets under construction and advance payments	0	0	0	0	0	0	0
<b>Total property, plant, and equipment</b>	<b>308,698</b>	<b>6,918</b>	<b>44,815</b>	<b>(177)</b>	<b>22,506</b>	<b>(36)</b>	<b>337,712</b>
<b>Total intangible and tangible assets</b>	<b>371,951</b>	<b>8,157</b>	<b>61,806</b>	<b>(170)</b>	<b>27,358</b>	<b>0</b>	<b>414,386</b>

Changes in consolidation range include the acquisition of subsidiaries and changes in the consolidation method for Group companies.

The presentation of the acquisition or production costs as well as the depreciation and amortization of the balance as of January 1, 2010 was restated in connection with business combinations effected in former years. This change did neither affect the net book value nor the flows of the periods presented.

## Net book value

2011

<i>(in TEUR)</i>	<b>Costs as of December 31, 2011</b>	<b>Accumu- lated de- preciation</b>	<b>Net book value as of December 31, 2011</b>	<b>Net book value as of December 31, 2010</b>
<b>Intangible assets</b>	<b>175,225</b>	<b>97,987</b>	<b>77,238</b>	<b>62,042</b>
Land and buildings	289,689	97,685	192,004	186,581
Technical equipment and machinery	357,662	198,289	159,373	136,293
Other equipment, factory and office equipment	126,199	78,322	47,877	40,476
Assets under construction and advance payments	34,115	0	34,115	44,673
<b>Total property, plant, and equipment</b>	<b>807,665</b>	<b>374,296</b>	<b>433,369</b>	<b>408,023</b>
<b>Total intangible and tangible assets</b>	<b>982,890</b>	<b>472,283</b>	<b>510,607</b>	<b>470,065</b>

## Impairment

In 2011, impairment charges of TEUR 1,506 (2010: TEUR 0) for intangible and tangible assets were recorded.

## Collateral

Property, plant, and equipment amounting to TEUR 11,242 and TEUR 3,414 as of 31 December 2011 and 2010, respectively, have been pledged as security.

## Commitments

The commitments arising from contracts for expenditure on property, plant, and equipment are only within the ordinary scope of business. As of December 31, 2011, these commitments amounted to TEUR 7,599 (2010: to TEUR 10,170).

## Borrowing costs

No borrowing costs relating to qualifying assets were capitalized in the 2011 or the 2010 business years as the amounts were immaterial.

## Finance leases

The net book value for land and buildings includes an amount of TEUR 6,595 (2010: TEUR 6,836), the net book value for technical equipment and machinery includes an amount of TEUR 934 (2010: TEUR 1,034), and the net book value for other equipment, factory and office equipment includes an amount of TEUR 12 (2010: TEUR 19) in respect of assets held under finance lease. The lease contracts have terms from 36 up to 180 months.

**2. Goodwill**

The following table illustrates the changes in the amount of goodwill for the periods ended December 31, 2011 and 2010:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
<b>COST</b>		
<b>Balance as of January 1</b>	<b>430,604</b>	<b>388,037</b>
Currency translation adjustments	3,724	10,615
Changes in consolidation range	29,978	31,952
<b>Balance as of December 31</b>	<b>464,306</b>	<b>430,604</b>
<b>ACCUMULATED IMPAIRMENT</b>		
<b>Balance as of January 1</b>	<b>175,541</b>	<b>168,143</b>
Currency translation adjustments	3,052	7,398
Impairment losses recognized during the period	1,000	0
<b>Balance as of December 31</b>	<b>179,593</b>	<b>175,541</b>
<b>NET BOOK VALUE</b>		
Balance as of January 1	255,063	219,894
Balance as of December 31	284,713	255,063

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
VA TECH HYDRO	97,846	97,843
ANDRITZ Ahlstrom	21,664	22,267
Acquisition of ANDRITZ AG	59,596	59,596
Other	105,607	75,357
	<b>284,713</b>	<b>255,063</b>

#### Impairment

In 2011, the goodwill arising from the acquisition of a chip thickness screening business met the characteristics for impairment because the business did not develop according to plan. The impairment of goodwill amounted to TEUR 1,000 and relates to the PULP & PAPER business area. In 2010, no impairment losses were recorded for goodwill.

### 3. Shares in associated companies

Accumulated total assets of associated companies included in the consolidated financial statements as of December 31, 2011 amounted to TEUR 60,647 (December 31, 2010: TEUR 188,029), total liabilities to TEUR 36,030 (December 31, 2010: TEUR 157,213), sales amounted to TEUR 44,652 (2010: TEUR 49,173), and net income amounted to TEUR -2,557 (2010: TEUR -452). The decrease in assets and liabilities relates to the change in consolidation method of some companies.

### 4. Other investments

Other investments comprise the following:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Loans against borrowers' notes	199,500	0
Shares in not consolidated companies	16,876	2,849
Other shares	8,870	8,589
Non-current securities	2,876	2,664
Loans	7,768	5,884
	<b>235,890</b>	<b>19,986</b>

Loans against borrowers' notes include an amount of TEUR 11,464 which was included in balance sheet position "Marketable securities" in 2010.

### 5. Non-current receivables and other non-current assets

Non-current receivables and other non-current assets consist of trade accounts receivable and other non-current receivables.

### 6. Inventories

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Finished goods	66,462	45,020
Work in progress	161,498	131,410
Materials and supplies	183,783	158,482
	<b>411,743</b>	<b>334,912</b>

Impairment losses for products in cases where the net realizable value (selling price less selling and administrative expenses) was less than the acquisition or production cost or for obsolete and slow-moving items were increased by TEUR 5,425 (2010: TEUR 7,831).

### 7. Advance payments made

The advance payments made and presented in the statement of financial position relate to open purchase orders for ongoing contracts.

### 8. Trade accounts receivable

Total trade receivables (less allowances) as of December 31, 2011 amounted to TEUR 595,717 (2010: TEUR 517,240), where the non-current portion is included in the balance sheet item non-current receivables and other non-current assets.



<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Trade accounts receivable – current	581,367	510,148
Trade accounts receivable – non-current	14,350	7,092
	<b>595,717</b>	<b>517,240</b>
Thereof neither past due nor impaired	425,224	350,571
Thereof past due but not impaired	165,923	162,285
Thereof impaired	30,096	26,738
Valuation allowance	(25,526)	(22,354)
	<b>595,717</b>	<b>517,240</b>

Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's creditworthiness and defines credit limits per customer. Limits and scoring attributed to customers are reviewed regularly. More than two-thirds of the trade receivables are neither past due nor impaired.

Included in the Group's trade receivable balance are debtors with a carrying amount of TEUR 165,923 (2010: TEUR 162,285) which are past due at the reporting date and for which the Group has not recognized any valuation allowance as there has not been a significant change in creditworthiness and the amounts are still considered recoverable.

Roll-forward of the valuation allowance for trade accounts receivable is as follows:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
<b>Allowance as of January 1</b>	<b>(22,354)</b>	<b>(23,240)</b>
Currency translation adjustments	379	(1,573)
Charged to expenses	(9,513)	(7,201)
Amounts written-off	2,809	6,293
Released	3,153	3,367
<b>Allowance as of December 31</b>	<b>(25,526)</b>	<b>(22,354)</b>

The trade receivables past due, but not impaired as of December 31, were as follows:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Up to 60 days past due	101,504	98,171
61 to 120 days past due	19,436	18,044
More than 120 days past due	44,983	46,070
	<b>165,923</b>	<b>162,285</b>

In determining the recoverability of a trade receivable, the Group considers any change in the creditworthiness from the date on which the credit was initially granted up to the reporting date. Determination of impairments also considers collateralization of payments by bank guarantees and export insurance. The Executive Board believes that no further credit provision is required in excess of the allowance for doubtful debts already recognized.

## 9. Construction contracts

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Contract revenue recognized as sales in the current period	3,318,549	2,462,148
Contract costs incurred and recognized profits (less recognized losses) to date	7,166,344	5,347,447
Advances received and progress billings	7,944,146	6,001,267
Amount of retentions	7,934	10,461

The receivables recorded under "Cost and earnings of projects under construction in excess of billings" belong entirely to the category "Neither past due nor impaired".

## 10. Other receivables

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Receivables from associated companies	5,719	5,645
Foreign exchange forward contracts at fair value	16,373	17,106
Commodity forward contracts at fair value	0	861
Receivables from value-added tax and from other taxes and charges	121,998	79,055
Receivables from prepaid income taxes	23,867	19,513
Prepayments and deferred charges	17,464	15,961
Bills of exchange receivable	28,050	10,461
Interest rate swaps at fair value	22,312	22,880
Other	124,713	112,894
	<b>360,496</b>	<b>284,376</b>
thereof other current receivables	319,366	252,159
thereof other non-current receivables	41,130	32,217
	<b>360,496</b>	<b>284,376</b>

The Executive Board considers that the carrying amount of other receivables corresponds to their fair value.

## 11. Retained earnings

### Dividends

For 2011, a dividend of EUR 2.20 per outstanding share is proposed by the Executive Board. The dividend for 2010 of TEUR 86,857, which is equal to EUR 1.70 per share, was proposed by the Executive Board and approved at the 104<sup>th</sup> Annual General Meeting of Shareholders on March 29, 2011. The dividend was paid to the shareholders on April 4, 2011.

On February 23, 2012, the Executive Board authorized the consolidated financial statements for the year ended December 31, 2011 according to IFRS. On February 24, 2011, the Executive Board authorized submission of the consolidated financial statements for the year ended December 31, 2010 according to IFRS to its Supervisory Board. The consolidated financial statements were presented to the Supervisory Board and subsequently to the General Meeting of Shareholders.

### Additional capital disclosures

ANDRITZ is committed to a strong asset and capital structure, with high financial flexibility. As of December 31, 2011 and 2010, equity and total assets of the company were as follows:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Total equity	938,873	794,380
Equity ratio	20.6%	19.7%
Total assets	4,566,602	4,035,768

ANDRITZ is not subject to any statutory capital requirements. Commitments exist to sell shares in connection with established share-based payment plans. In recent years, commitments from share-based payment have been satisfied through buy-back of the company's shares (see note F 13).

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while optimizing the return to shareholders through the optimization of the debt and equity balance. Bonds were issued in the past to safeguard the financial stability and also to build the foundation for further growth of the ANDRITZ GROUP. The capital structure of the Group consists of debt, which includes the borrowings, of cash and cash equivalents, and of equity attributable to shareholders of the parent, comprising share capital, capital reserves, and retained earnings.

The capital structure is reviewed on an ongoing basis. As a part of this review, the cost of capital and the risks associated with each class of capital are considered. Based on this, the Group is committed to optimize its overall capital structure through the payment of dividends, new share issues, and share buy-backs, as well as the issue of new debt or the redemption of existing debt.

The Group's overall strategy remains unchanged from 2010.

## 12. Provisions

2011

<i>(in TEUR)</i>	Balance as of January 1, 2011	Currency translation adjustments	Changes in consolidation range	Reclassification	Use	Reversal	Addition	Unwinding of discount effect	Balance as of December 31, 2011
Provisions for severance payments	73,936	(81)	1,484	0	6,690	5	5,980	3,231	77,855
Provisions for pensions	71,847	429	0	0	3,799	1,899	16,705	2,024	85,307
Order-related non-current provisions	56,940	(323)	42,018	(4,073)	7,299	6,914	41,322	0	121,671
Other non-current provisions	16,245	(13)	99	15	492	34	348	495	16,663
<b>Non-current provisions</b>	<b>218,968</b>	<b>12</b>	<b>43,601</b>	<b>(4,058)</b>	<b>18,280</b>	<b>8,852</b>	<b>64,355</b>	<b>5,750</b>	<b>301,496</b>
Order-related current provisions	337,613	(508)	1,291	3,295	50,685	50,837	104,339	0	344,508
Other current provisions	26,171	(416)	937	763	9,402	3,045	6,293	0	21,301
<b>Current provisions</b>	<b>363,784</b>	<b>(924)</b>	<b>2,228</b>	<b>4,058</b>	<b>60,087</b>	<b>53,882</b>	<b>110,632</b>	<b>0</b>	<b>365,809</b>

2010

<i>(in TEUR)</i>	Balance as of January 1, 2010	Currency translation adjustments	Changes in consolidation range	Reclassification	Use	Reversal	Addition	Unwinding of discount effect	Balance as of December 31, 2010
Provisions for severance payments	73,838	100	294	0	6,514	107	2,643	3,682	73,936
Provisions for pensions	61,456	1,703	11,477	0	2,572	(565)	(3,579)	2,797	71,847
Order-related non-current provisions	58,808	2,020	342	1,173	15,675	10,625	20,897	0	56,940
Other non-current provisions	15,754	253	246	59	537	192	94	568	16,245
<b>Non-current provisions</b>	<b>209,856</b>	<b>4,076</b>	<b>12,359</b>	<b>1,232</b>	<b>25,298</b>	<b>10,359</b>	<b>20,055</b>	<b>7,047</b>	<b>218,968</b>
Order-related current provisions	295,175	11,859	4,901	(1,232)	40,788	39,816	107,514	0	337,613
Other current provisions	24,913	1,124	1,192	0	5,850	654	5,446	0	26,171
<b>Current provisions</b>	<b>320,088</b>	<b>12,983</b>	<b>6,093</b>	<b>(1,232)</b>	<b>46,638</b>	<b>40,470</b>	<b>112,960</b>	<b>0</b>	<b>363,784</b>

Order-related provisions include primarily warranties, contingencies, and impending losses.

ANDRITZ expects the order-related non-current provisions generally to result in cash outflows during the next one to three years. For the order-related current provisions, the Company expects cash outflows within the next business year.

## 13. Employee benefits

### Pensions

Some Group companies provide defined benefit pension plans for some classes of employees. Provisions for pension obligations are established for benefits payable in the form of retirement, disability, and surviving dependent pensions. The benefits offered vary according to the legal, fiscal and economic conditions in each country. Benefits are dependent on years of service and, in some cases, on the respective employee's compensation.

The following table shows the changes in pension benefit obligation for the years ending December 31, 2011 and 2010:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
<b>Defined benefit obligation as of January 1</b>	<b>198,284</b>	<b>167,131</b>
Currency translation adjustments	3,124	17,145
Current service cost	5,715	6,576
Interest cost on obligations	7,576	7,998
Actuarial (gains)/losses	13,379	(1,887)
Benefits paid	(6,578)	(12,357)
Contributions by the plan participants	2,458	2,171
Past service cost	279	0
Effect of any curtailment or settlement	(6,743)	30
Changes in consolidation range	0	11,477
<b>Defined benefit obligation as of December 31</b>	<b>217,494</b>	<b>198,284</b>
Fair value of plan assets	(132,187)	(126,437)
<b>Accrued liability as of December 31</b>	<b>85,307</b>	<b>71,847</b>

Total pension obligations of TEUR 217,494 (2010: TEUR 198,284) include TEUR 171,199 (2010: TEUR 145,677) that are covered in part or in full by investments in funds (plan assets).

The following table shows the development of the fair value of the plan assets:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
<b>Fair value of plan assets as of January 1</b>	<b>126,437</b>	<b>105,675</b>
Currency translation adjustments	2,695	15,442
Expected return on plan assets	5,552	5,201
Actuarial gains/(losses)	(5,200)	1,688
Contributions by the employer	7,868	6,580
Contributions by the plan participants	2,458	2,171
Benefits paid	(2,779)	(9,785)
Effect of any curtailment or settlement	(4,844)	(535)
<b>Fair value of plan assets as of December 31</b>	<b>132,187</b>	<b>126,437</b>

The split of fair values of the plan assets is as follows:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Equity instruments	31,382	35,294
Debt instruments	60,712	54,372
Property	19,264	18,277
Other assets	20,829	18,494
	<b>132,187</b>	<b>126,437</b>

Pension expenses comprise the following:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Current service cost	5,715	6,576
Past service cost	279	0
Effect of any curtailment or settlement	(1,899)	565
	4,095	7,141
Payments to defined contribution plans	23,856	18,471
	<b>27,951</b>	<b>25,612</b>

Principal actuarial assumptions used to determine pension obligation as of December 31, 2011 and 2010 are as follows:

(in %)	2011		2010	
	from	to	from	to
Discount rate	2.30	5.60	1.80	7.50
Wage and salary increases	1.00	5.00	1.00	5.98
Retirement benefit increases	2.50	3.00	2.00	3.75
Expected return on plan assets	4.00	8.00	1.06	7.50

The average expected return is assumed according to the portfolio structure of the plan assets, consideration of historical returns, as well as future estimates of long-term investment returns. In 2011, the actual return on plan assets was 0.23% (2010: actual return of 5.88%).

Experience adjustments are as follows:

(in TEUR)	2011	2010	2009	2008	2007
Present value of defined benefit obligation	217,494	198,284	167,131	170,449	143,350
Fair value of plan assets	132,187	126,437	105,675	102,108	86,385
<b>Deficit of the plan</b>	<b>85,307</b>	<b>71,847</b>	<b>61,456</b>	<b>68,341</b>	<b>56,965</b>
Experience adjustments to the defined benefit obligation	(15,322)	(9,085)	(7,489)	(15,112)	341
Experience adjustments to the plan assets	(5,680)	2,223	2,081	(1,895)	(917)

The expected payments to pension funds for defined benefits are TEUR 4,817 for the fiscal year 2012.

#### Severance payments

The following table shows the changes in the severance benefit obligation for the years ended December 31, 2011 and 2010:

(in TEUR)	2011	2010
<b>Defined benefit obligation as of January 1</b>	<b>74,596</b>	<b>74,212</b>
Currency translation adjustments	(81)	100
Current service cost	2,806	2,783
Interest cost on obligations	3,231	3,682
Actuarial (gains)/losses	3,174	(140)
Benefits paid	(6,634)	(6,228)
Effect of any curtailment or settlement	(5)	(107)
Changes in consolidation range	1,484	294
<b>Defined benefit obligation as of December 31</b>	<b>78,571</b>	<b>74,596</b>
Fair value of plan assets	(716)	(660)
<b>Accrued liability as of December 31</b>	<b>77,855</b>	<b>73,936</b>

Severance expenses comprise the following:

(in TEUR)	2011	2010
Current service cost	2,806	2,783
Effect of any curtailment or settlement	(5)	(107)
	<b>2,801</b>	<b>2,676</b>
Payments to defined contribution plans	1,792	1,430
	<b>4,593</b>	<b>4,106</b>

Experience adjustments are as follows:

(in TEUR)	2011	2010	2009	2008	2007
Present value of defined benefit obligation	78,571	74,596	74,212	81,741	80,075
Fair value of plan assets	716	660	374	235	145
<b>Deficit of the plan</b>	<b>77,855</b>	<b>73,936</b>	<b>73,838</b>	<b>81,506</b>	<b>79,930</b>
Experience adjustments to the defined benefit obligation	(233)	(65)	6,411	529	(5,264)
Experience adjustments to the plan assets	2	(16)	(9)	18	0

The basic actuarial assumptions used to determine severance obligations were the same as used for pension obligations.

### Management share option plans

The 101<sup>st</sup> Annual General Meeting of Shareholders held on March 27, 2008 adopted a share option program for managers and members of the Executive Board. The number of options granted to the different managers varies – depending on the area of responsibility – between 6,000, 10,000, and 20,000 shares for managers, 40,000 for Executive Board members, and 50,000 for the Chief Executive Officer (CEO). The options are to be drawn from the pool of shares bought back under the corporate share buy-back program. One share option entitles the holder to the purchase of one share. In order to exercise a share option, eligible persons must have been in active employment with ANDRITZ AG or one of its affiliates as from May 1, 2008 until each date of exercise of an option. Another requirement is that managers must have invested at least EUR 20,000 in ANDRITZ shares from their own resources, and the members of Executive Board at least EUR 40,000.

The exercise price of the option is the unweighted average closing price of ANDRITZ shares in the four calendar weeks following the 101<sup>st</sup> Annual General Meeting of Shareholders held on March 27, 2008.

The options can be exercised between May 1, 2010 and April 30, 2012 (= period of exercise) provided that the average unweighted closing price of the ANDRITZ share over twenty consecutive trading days within the period from May 1, 2010 to April 30, 2011 is at least 15% above the exercise price and the earnings per share in business year 2009 (based on the total number of shares listed), or the earnings per share in business year 2010 (based on the total number of shares listed) are at least 15% above the earnings per share in business year 2007 (based on the total number of shares listed); or the average unweighted closing price of the ANDRITZ share over twenty consecutive trading days within the period from May 1, 2011 to April 30, 2012 is at least 20% above the exercise price and the earnings per share in business year 2010 (based on the total number of shares listed), or the earnings per share in business year 2011 (based on the total number of shares listed) are at least 20% above the earnings per share in business year 2007 (based on the total number of shares listed).

If the conditions of exercise are met, 50% of the options can be exercised immediately, 25% after three months, and the remaining 25% after a further three months. Share options can only be exercised by way of written notification to the company. The share options are not transferable. The shares purchased under the share option program are not subject to a ban on sales over a certain period.

The options granted in 2008 totalled 1,100,000. The fair value of the options at the time of granting amounts to TEUR 9,396, whereas no expense incurred in 2011. Calculation of the fair value was based on the Black-Scholes option pricing model. The share price at the time of granting the options was the closing price of the ANDRITZ share on May 5, 2008 and amounts to EUR 39.55. The exercise price of EUR 35.44 was calculated in accordance with the rules of the option program. A period of two years was assumed for the duration of the options. The expected dividend yield was fixed at 2.5%, using a discount rate of 4.5%. The value published by the Vienna Stock Exchange was applied as expected volatility. No further option granting parameters were used in the calculation.

The 103<sup>rd</sup> Annual General Meeting of Shareholders held on March 26, 2010 adopted a further share option program for managers and members of the Executive Board. The number of options granted to the different managers varies – depending on the area of responsibility – between 6,000, 10,000, 15,000, and 20,000 shares for managers, 40,000 for Executive Board members, and 50,000 for the Chief Executive Officer (CEO). The options are to be drawn from the pool of shares bought back under the corporate share buy-back program. One share option entitles the holder to the purchase of one share. In order to exercise a share option, eligible persons must have been in active employment with ANDRITZ AG or one of its affiliates as from May 1, 2010 until each date of exercise of an option. Another requirement is that managers must have invested at least EUR 20,000 in ANDRITZ shares from their own resources, and members of the Executive Board at least EUR 40,000.

The exercise price of the option is the unweighted average closing price of ANDRITZ shares in the four calendar weeks following the 103<sup>rd</sup> Annual General Meeting of Shareholders held on March 26, 2010.

The options can be exercised between May 1, 2013 and April 30, 2015 (= period of exercise) provided that the average unweighted closing price of the ANDRITZ share over twenty consecutive trading days within the period from May 1, 2012 to April 30, 2013 is at least 15% above the exercise price and the earnings per share in business year 2011 (based on the total number of shares listed), or the earnings per share in business year 2012 (based on the total number of shares listed) are at least 15% above the earnings per share in business year 2009 (based on the total number of shares listed); or the average unweighted closing price of the ANDRITZ share over twenty consecutive trading days within the period from May 1, 2013 to April 30, 2014 is at least 20% above the exercise price and the earnings per share in business year 2012 (based on the total number of shares listed), or the earnings per share in business year 2013 (based on the total number of shares listed) are at least 20% above the earnings per share in business year 2009 (based on the total number of shares listed).

If the conditions of exercise are met, 50% of the options can be exercised immediately, 25% after three months, and the remaining 25% after a further three months. Share options can only be exercised by way of written notification to the company. The share options are not transferable. The shares purchased under the share option program are not subject to a ban on sales over a certain period.

The options granted in 2010 totaled 1,033,000. The fair value of the options at the time of granting amounts to TEUR 8,362, thereof TEUR 2,539 have been reported as proportionate expense in 2011. The calculation of the fair value was based on the Black-Scholes option pricing model. The share price at the time of granting the options was the closing price of the ANDRITZ share on May 4, 2010 and amounts to EUR 44.68. The exercise price of EUR 46.36 was calculated in accordance with the rules of the option program. A period of three years was assumed for the duration of the options. The expected dividend yield was fixed at 2.5%, using a discount rate of 4.8%. The value published by the Vienna Stock Exchange was applied as expected volatility. No further option granting parameters were used in the calculation.

Movements in options under the share option plans for the 2011 and 2010 financial years were as follows:

	2011		2010	
	Number of options	Average exercise price per option (in EUR)	Number of options	Average exercise price per option (in EUR)
<b>Total as of January 1</b>	<b>2,079,000</b>	<b>40.87</b>	<b>1,334,000</b>	<b>34.68</b>
Options granted	0	0	1,033,000	46.36
Options exercised	(1,011,200)	35.44	(238,000)	31.67
Options forfeited	(18,000)	46.36	(50,000)	33.18
<b>Total as of December 31</b>	<b>1,049,800</b>	<b>46.00</b>	<b>2,079,000</b>	<b>40.87</b>
Exercisable at year-end	40,800	35.44	0	0.00

#### 14. Maturities of financial liabilities

##### 2011

(in TEUR)	Remaining term less than 1 month	Remaining term between 1 and 3 months	Remaining term between 4 and 12 months	Remaining term between 1 and 5 years	Remaining term over 5 years	Total
Bonds	0	0	0	357,706	0	357,706
Bank loans and other financial liabilities	13,643	14,942	30,128	6,957	4,465	70,135
Obligations under finance leases	62	133	562	1,402	6,294	8,453
	<b>13,705</b>	<b>15,075</b>	<b>30,690</b>	<b>366,065</b>	<b>10,759</b>	<b>436,294</b>

##### 2010

(in TEUR)	Remaining term less than 1 month	Remaining term between 1 and 3 months	Remaining term between 4 and 12 months	Remaining term between 1 and 5 years	Remaining term over 5 years	Total
Bonds	0	0	0	372,880	0	372,880
Bank loans and other financial liabilities	20,340	6,246	13,083	14,706	4,422	58,797
Obligations under finance leases	66	145	537	1,638	6,525	8,911
	<b>20,406</b>	<b>6,391</b>	<b>13,620</b>	<b>389,224</b>	<b>10,947</b>	<b>440,588</b>

The interest-bearing borrowings consist primarily of current bank loans at floating interest rates and fixed rates.

There are no substantial credit defaults in the ANDRITZ GROUP; all of the financial liabilities are settled in general on the due date.

The Executive Board considers that the carrying amount of liabilities corresponds to their fair value.

**15. Other liabilities**

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Payables due to associated companies	3,766	2,246
Bonuses, unused vacation and other personnel-related accruals	150,244	127,131
Outstanding invoices for order-related costs	435,164	354,950
Deferred income	9,185	4,623
Foreign exchange forward contracts at fair value	43,227	26,080
Liabilities from value-added tax and from other taxes and charges	53,400	43,185
Liabilities from commissions	8,811	6,673
Commodity forward contracts at fair value	468	0
Other	96,406	136,922
	<b>800,671</b>	<b>701,810</b>
thereof other current liabilities	786,536	687,171
thereof other non-current liabilities	14,135	14,639
	<b>800,671</b>	<b>701,810</b>

Other non-current liabilities include trade accounts payable amounting to TEUR 1,572 (2010: TEUR 1,353).

The Executive Board considers that the carrying amount of other liabilities corresponds to their fair value.

**G) NOTES TO THE CONSOLIDATED INCOME STATEMENT****16. Sales**

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Contract revenue recognized as sales in the current period	3,318,549	2,462,149
Other	1,277,444	1,091,638
	<b>4,595,993</b>	<b>3,553,787</b>

**17. Other operating income**

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Profit on disposal of intangible and tangible assets	2,076	2,811
Exchange rate gains	28,006	24,781
Rental income	2,551	2,893
Government grants	10,065	7,404
Income from release of valuation allowance on receivables	3,153	3,367
Insurance Income	3,585	2,196
Other	35,327	28,839
	<b>84,763</b>	<b>72,291</b>

**18. Personnel expenses**

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Wages and salaries	797,277	649,298
Pension expenses	27,951	25,613
Severance expenses	4,593	4,105
Social security and payroll-related duties	130,116	112,116
Other social payments	35,465	36,325
	<b>995,402</b>	<b>827,457</b>



**19. Other operating expenses**

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Exchange rate losses	36,124	26,177
Sales expenses	236,250	207,675
Administrative expenses	43,526	38,096
Rents and leases	44,244	35,171
Change in valuation allowance for trade receivables	9,513	7,201
Loss on disposal of intangible and tangible assets	1,006	981
Expenses for industrial patents, rights, licenses	6,172	4,202
Insurance premiums and charges	24,117	21,405
Other	148,431	114,374
	<b>549,383</b>	<b>455,282</b>

**20. Financial result**

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Income/(expense) from associated companies	(1,747)	156
Interest and similar income	34,208	22,155
Interest and similar expenses	(23,251)	(20,044)
Interest result	10,957	2,111
Other financial result	(161)	180
	<b>9,049</b>	<b>2,447</b>

Interest and similar expenses include TEUR 5,750 (2010: TEUR 7,047) in interest costs on pension and severance and jubilee obligations as well as expected return on plan assets.

**21. Income taxes**

Tax expense on income taxes comprises the following:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Current tax expense	(100,422)	(82,902)
Deferred tax benefit relating to the origination and reversal of temporary differences	10,145	11,944
	<b>(90,277)</b>	<b>(70,958)</b>

Changes in the deferred income tax account consist of the following:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Deferred tax assets	91,704	89,171
Deferred tax liabilities	(79,796)	(89,955)
Balance as of January 1	11,908	(784)
Deferred taxes relating to the origination and reversal of temporary differences		
income statement charge	10,145	11,944
charged to equity	(28)	748
	<b>22,025</b>	<b>11,908</b>
thereof		
Deferred tax assets	107,180	91,704
Deferred tax liabilities	(85,155)	(79,796)

The effective tax rate is reconciled to the tax rate used as follows:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Earnings Before Taxes (EBT)	321,745	247,927
Tax at the applicable tax rate (25% in 2011 and 25% in 2010)	(80,436)	(61,982)
Tax effect of		
change in tax rate and differences in foreign tax rates	(4,113)	(4,155)
other changes	(5,728)	(4,821)
	<b>(90,277)</b>	<b>(70,958)</b>
Current tax expense	(100,422)	(82,902)
<b>Changes in deferred taxes charged to the income statement</b>	<b>10,145</b>	<b>11,944</b>

Deferred tax assets and deferred tax liabilities as of December 31, 2011 and 2010 are the result of the following temporary valuation differences between book values in the IFRS consolidated financial statements and the relevant tax bases:

<i>(in TEUR)</i>	2011		2010	
	Deferred tax		Deferred tax	
	assets	liabilities	assets	liabilities
Intangible assets	1,333	(15,443)	1,861	(11,452)
Property, plant, and equipment	4,728	(14,811)	7,130	(14,914)
Financial assets	934	(10,305)	24	(10,953)
Inventories	235,646	(3,263)	391,100	(2,502)
Receivables and other assets	18,288	(81,351)	8,082	(81,680)
	<b>260,929</b>	<b>(125,173)</b>	<b>408,197</b>	<b>(121,501)</b>
Provisions	101,255	(23,845)	79,604	(28,341)
Liabilities	56,268	(241,607)	56,805	(391,651)
	<b>157,523</b>	<b>(265,452)</b>	<b>136,409</b>	<b>(419,992)</b>
Tax loss carry-forwards	56,637	0	68,959	0
<b>Deferred tax assets/(liabilities)</b>	<b>475,089</b>	<b>(390,625)</b>	<b>613,565</b>	<b>(541,493)</b>
Valuation allowance for deferred tax assets	(62,439)	0	(60,164)	0
Offset within legal tax units and jurisdiction	(305,470)	305,470	(461,697)	461,697
<b>Net deferred tax assets and liabilities</b>	<b>107,180</b>	<b>(85,155)</b>	<b>91,704</b>	<b>(79,796)</b>

High amounts for deferred tax assets for inventories and deferred tax liabilities for liabilities are due to different presentation in local tax statements and IFRS as well as netting of inventories and liabilities in local tax statements.

For the following issues no deferred tax assets have been recognized (gross-values):

<i>(in TEUR)</i>	2011	2010
Deductible temporary differences	18,592	13,651
Tax losses	187,325	184,516

In assessing the recoverability of deferred tax assets, the Executive Board considers whether it is probable that all the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Executive Board considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Executive Board believes it is probable that the company will realize the benefits of the recognized deductible differences and operating loss carry-forwards. During the financial year no significant deferred tax assets were recognized due to losses suffered by an entity in either the current or preceding period in the relevant tax jurisdiction.

## 22. Earnings per share

Basic earnings per share (as presented following the consolidated income statement) are calculated by dividing the net income for the period attributable to shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period. Diluted basic earnings per share are calculated by dividing the net income for the period attributable to shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period with consideration of share options.

## H) SEGMENT INFORMATION

Segment information is prepared on the following basis:

### Business areas

The ANDRITZ GROUP conducts its business activities through the following business areas:

- a) HYDRO (HY)
- b) PULP & PAPER (PP)
- c) SEPARATION (SE)
- d) METALS (ME)
- e) FEED & BIOFUEL (FB)

### Geographical segments

The Group's activities are conducted predominantly in Europe, North America, South America, and Asia. External revenues are based on the geographical location of the company's customers.

#### 2011

##### Business area data

(in TEUR)	HY	PP	SE	ME	FB	Transition	Total
Sales	1,772,863	1,855,891	448,863	372,736	145,640	0	4,595,993
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	174,265	136,570	44,185	21,554	9,578	0	386,152
Total assets	1,491,171	785,424	369,697	182,232	92,746	1,645,332	4,566,602
Total liabilities	1,476,399	979,991	189,932	192,118	51,026	738,263	3,627,729
Capital expenditure	44,320	19,437	7,042	1,790	4,385	0	76,974
Depreciation, amortization, and impairment of intangible assets and property, plant, and equipment*	35,556	23,023	9,076	2,557	2,244	0	72,456
Share of net profit/(loss) of associates	(1,162)	(1,702)	0	801	316	0	(1,747)
Shares in associated companies	10,681	954	0	1,793	0	0	13,428

\* Depreciation, amortization, and impairment of intangible assets and property, plant, and equipment includes TEUR 17,839, which refers to amortization of identifiable intangible assets acquired in a business combination and recognized separately from goodwill.

##### Geographical segment data

(in TEUR)	Europe	North America	South America	Asia	Rest of the world and consolidation	Total
External sales	1,731,984	598,635	951,342	1,153,104	160,928	4,595,993
Non-current assets	483,167	73,283	59,394	65,855	169,101	850,800
Capital expenditure	57,351	5,536	5,030	8,593	464	76,974

External sales for Europe encompass an amount of TEUR 124,220 for sales realized in Austria. Non-current assets of TEUR 258,088 are located in Austria.

Non-current assets consist of property, plant, and equipment, goodwill, intangible assets and non-current receivables.

#### 2010

##### Business area data

(in TEUR)	HY	PP	SE	ME	FB	Transition	Total
Sales	1,579,230	1,105,279	375,444	340,150	153,682	0	3,553,787
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	139,930	98,354	34,816	21,196	12,989	0	307,286
Total assets	1,471,102	599,380	336,195	171,741	100,868	1,356,482	4,035,768
Total liabilities	1,477,853	726,389	172,761	186,326	51,256	626,802	3,241,388
Capital expenditure	41,438	17,944	5,692	1,879	1,815	0	68,767
Depreciation, amortization, and impairment of intangible assets and property, plant, and equipment*	30,224	19,150	7,109	3,381	1,942	0	61,806
Share of net profit/(loss) of associates	0	(31)	0	0	187	0	156
Shares in associated companies	11,819	8,307	0	1,188	795	0	22,110

\* Depreciation, amortization, and impairment of intangible assets and property, plant, and equipment includes TEUR 12,158, which refers to amortization of identifiable intangible assets acquired in a business combination and recognized separately from goodwill.

**Geographical segment data**

<i>(in TEUR)</i>	Europe	North America	South America	Asia	Rest of the world and consolidation	Total
External sales	1,361,957	549,974	524,407	998,969	118,480	3,553,787
Non-current assets	442,097	65,071	54,214	62,804	140,250	764,437
Capital expenditure	43,705	5,340	7,663	11,682	378	68,767

External sales for Europe encompass an amount of TEUR 125,485 for sales realized in Austria. Non-current assets of TEUR 228,934 are located in Austria.

Non-current assets consist of property, plant, and equipment, goodwill, intangible assets and non-current receivables.

**I) NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS****Cash flows from acquisition of subsidiaries\***

<i>(in TEUR)</i>	Business area		Total	Total
	HY	PP	2011	2010
Intangible assets	981	32,278	33,259	31,089
Property, plant, and equipment	139	10,818	10,957	29,676
Inventories	92	23,720	23,812	34,672
Trade and other receivables excluding financial assets	916	58,062	58,978	26,539
Liabilities excluding financial liabilities	(773)	(85,830)	(86,603)	(76,628)
<b>Non-interest bearing net assets</b>	<b>1,355</b>	<b>39,048</b>	<b>40,403</b>	<b>45,348</b>
Marketable securities	0	4,035	4,035	2,454
Cash and cash equivalents	288	8,249	8,537	22,309
Non-current financial assets	0	1,010	1,010	2,820
Financial liabilities	(5)	(10,226)	(10,231)	(19,933)
Goodwill	1,657	28,321	29,978	31,952
<b>Total purchase price</b>	<b>3,295</b>	<b>70,437</b>	<b>73,732</b>	<b>84,950</b>
Purchase price paid	(3,295)	(70,437)	(73,732)	(80,216)
Cash and cash equivalents acquired	288	8,249	8,537	22,309
<b>Net cash flow</b>	<b>(3,007)</b>	<b>(62,188)</b>	<b>(65,195)</b>	<b>(57,907)</b>
Liabilities from purchase price not paid	0	0	0	(2,000)
Gain from change from proportionate consolidation to full consolidation	0	0	0	(2,734)
<b>Purchase price not paid in cash</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(4,734)</b>

\* Converted by using exchange rates as per dates of transaction.

The initial accounting for the businesses acquired in 2011 is based on preliminary figures. The final evaluation of the balance sheet items disclosed in the cash flows from acquisition will be carried out according the regulations of IFRS 3 (revised) "Business Combinations".

**J) RISK MANAGEMENT**

As a global company serving a variety of different markets and customers, the Group is subject to certain general and industry-specific risks. These risks mainly relate to the industries the Group serves (e.g. uncertainty of future contracts, volatility of incoming orders, customer concentration, etc.), the Group's business (e.g. currency exposure, competitive position, legal proceedings, etc.), and to major orders (e.g. payment risks, liabilities, performance of projects, cost overruns, etc.).

ANDRITZ has a long-established Group-wide control and risk management system whose main task is to identify nascent risks at an early stage and to take countermeasures. This is an important element in the active risk management system within the Group.

Despite having this monitoring and risk management system in place, it cannot be guaranteed that all risks will be identified at an early stage, and consequently the financial situation of the Group could be adversely affected.

The essential risks for the business development of the ANDRITZ GROUP relate above all to the Group's dependence on the general economic development and the development of the industries it serves, to whether major orders are received and to the risks they entail; and to whether adequate sales proceeds are realized from the high order backlog. In addition, unexpected increases in costs and difficulties in achieving the guaranteed performance parameters in the plants that ANDRITZ supplies present substantial risks during the project execution. A possible malfunction in the components and systems supplied by ANDRITZ can have serious consequences for individuals and on material assets. The financial difficulties and the continuing difficult overall economic development (particularly in Europe and the USA) also constitute a serious risk for the ANDRITZ GROUP's financial development. In addition, a possible slowdown in economic activities in the emerging markets also presents a risk to the Group. The weak economy may lead to delays in the execution of existing orders and to the postponement or cancellation of existing projects. Cancellations of existing contracts could adversely affect the ANDRITZ GROUP's order backlog, which would in turn have a negative impact on utilization of the Group's manufacturing capacities.

Complete or partial goodwill impairments resulting from acquisitions may also influence the earnings development of the ANDRITZ GROUP if the targeted financial goals for these companies cannot be reached. In addition, there is always some risk that partial or full provisions will have to be made for some trade accounts receivable.

For the majority of orders, the risk of payment failure by customers is mitigated by means of bank guarantees and export insurance, but individual payment failures can have a substantial negative impact on earnings development of the Group. Risks related to deliveries to countries with medium to high political risks typically are also insured to a large extent. Exchange rate risks in connection with the execution of the order backlog are minimized and controlled by derivative financial instruments, in particular by forward exchange contracts and swaps.

The Group enters into forward foreign exchange contracts to manage its foreign exchange risk resulting from cash flows from current business activities. Transaction risk is calculated in each foreign currency and includes currency denominated assets and liabilities and certain off-balance-sheet items such as highly probable future cash flows or firm commitments and highly probable purchases, and sales. The currency risks of the Group occur due to the fact that the Group's operations, production sites and markets are located in several countries. The Group carries its forward exchange contracts at fair value.

Cash flow risks are minimized by the Group's cash management system which controls incoming and outgoing cash flows of all relevant ANDRITZ affiliates. It also monitors the Group's cash pooling activities in order to optimize net financing income. The Group manages liquidity risks especially by holding adequate reserves, by issuing bonds, by receiving substantial customer advances, and by constantly monitoring the predicted and actual cash flows, as well as reconciling maturity date profiles of financial assets and liabilities.

#### **a) Liquidity risks**

In order to minimize the financial risks as best as possible and to enhance monitoring, control, and assessment of its financial and liquidity position, the ANDRITZ GROUP implemented both a comprehensive treasury policy and a transparent information system.

The ANDRITZ GROUP's position in terms of liquidity is very good; the Group has sufficient liquidity reserves and secured access to liquidity. The Group avoids dependence on one single or only a few banks. To ensure independence, no bank will receive more than a certain defined amount of the business in any important product (cash and cash equivalents, financial liabilities, financial assets, guarantees, and derivatives). With this diversification, ANDRITZ is seeking to minimize the counterparty risk as best possible. Nevertheless, if one or more banks were to become insolvent, this would have a considerable negative influence on earnings development and shareholders' equity of the ANDRITZ GROUP. In addition, lowering of ANDRITZ's credit rating by several banks can limit the financial leeway available to ANDRITZ, particularly regarding sureties to be issued.

ANDRITZ pursues a risk-averse investment strategy. Cash is largely invested in low-risk financial assets, such as government bonds, government-guaranteed bonds, investment funds to cover pension obligations, loans against borrowers' notes insured by a certificate of deposit, or term deposits. However, turbulences on the international financial markets may lead to unfavorable price developments for various securities in which the Group has invested (for example money market funds, bonds), or make them non-tradeable. This could have

an adverse effect on the ANDRITZ GROUP's financial result or shareholders' equity due to necessary depreciation or value adjustments. The crisis has also heightened the risk of default by some issuers of securities, as well as by customers. The Executive Board is informed at regular intervals of the extent and volume of current risk exposure in the ANDRITZ GROUP.

Due to the current sovereign debt crisis in the European Union, there is a risk of complete or partial collapse of the Euro zone and of a possible break-down of the Euro currency system linked to it. Most likely, this would have a negative effect on the financial, liquidity, and earnings development of the ANDRITZ GROUP.

#### **b) Credit risks**

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, limits, and monitoring procedures. Where appropriate, the Group obtains guarantees from governmental export agencies or similar private institutions to reduce the risk of a counterparty defaulting.

Credit risk associated with the investment of liquid funds and securities is low, as a wide distribution with simultaneously defined minimum criteria for the creditworthiness of the contractual partners are determining factors for the conservative investment strategy.

For certain financial assets and financial liabilities, the Group has a legally enforceable right to set off. These amounts are only reported on a net basis. For all known risks, valuation allowances are included. The possibility of a future shortfall in payment exceeding the recorded valuation allowance cannot be avoided with certainty. Without considering risk minimization strategies as described above, the carrying amounts of financial assets recorded in the financial statements represent the Group's maximum exposure to credit risk of the corresponding categories.

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Held for trading	61,158	53,297
Available for sale	473,781	409,392
Loans and receivables	1,375,350	1,089,566
Cash and cash equivalents	1,169,888	1,187,946
	<b>3,080,177</b>	<b>2,740,201</b>

The available-for-sale category includes a balance of impairment of TEUR 4,038 (balance 2010: 4,386). The loans and receivables category includes a balance of impairment for trade receivables of TEUR 25,526 (balance 2010: 22,354).

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. ANDRITZ received three major orders in 2011 (two in PULP & PAPER, one in HYDRO), thus the three largest customers contribute about 25% of total order intake of the Group. Progress on these projects is mostly funded by advance and progress payments received. Any credit risk for not received payments is reduced as much as possible by guarantees by banks and credit risk insurances. Thus the Executive Board believes that in this case no concentration of credit risk exists.

#### **c) Interest risk**

In June 2006, the company issued bonds for a nominal value of MEUR 200 with a repayment period of seven years and a nominal interest rate of 4.5% p.a. For this bond, interest rate swaps have been used to hedge the risk arising from the fixed interest rate of the bond. The interest rate swaps change the fixed interest rate for the whole period to a variable interest rate based on the one-month Euribor. Therefore, there is the risk of a changing interest rate concerning the cash flows, but the fair value of the bond is hedged and hedge accounting in the sense of IAS 39 was applied. During the business year, 14,000 TEUR of this bond were acquired, but the proportionate interest rate swap was not sold.

In February 2008, the company issued another bond for a nominal value of MEUR 150 with a repayment period of seven years and a nominal interest rate of 5.25% p.a. For this bond, interest rate swaps have been used to hedge the risk arising from the fixed interest rate of the bond. The interest rate swaps change the fixed interest rate for the whole period to a variable interest rate based on the three-month Euribor. Therefore, there is the risk of a changing interest rate concerning the cash flows, but the fair value of the bond is hedged and hedge accounting in the sense of IAS 39 was applied.

The basic contractual parameters of the swaps are similar to those of the bonds, and therefore the hedges were 100% effective in hedging the fair value exposure to interest rate movements during the period. By applying the rules for hedge accounting, the gain or loss from the swaps to fair value was recognized through profit or loss. The gain or loss attributable to the changes of the hedged interest rate risk caused an adjustment to the bonds' carrying amounts and was also recognized through profit or loss. Therefore, the gains and losses resulting from the changes in fair value of the swaps and the bonds offset each other except for the proportionate interest rate swaps for the bonds reacquired on the market.

The details on the change in the fair value of the swaps designated as fair value hedge are as follows:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Fair value of swaps as of January 1	22,880	21,553
Fair value of swaps as of December 31	22,312	22,880
<b>Gain/(loss) recognized through profit or loss</b>	<b>(568)</b>	<b>1,327</b>

The Executive Board believes that the exposure to interest rate risk of remaining financial assets and liabilities is negligible. Consequently, additional significant derivative instruments for hedging these interest risks are not used within the Group.

The weighted average interest rates at the balance sheet date were as follows:

<i>(in %)</i>	<b>2011</b>	<b>2010</b>
Cash on current accounts	0.9	0.8
Short-term deposits	2.1	1.3
Securities, short-term	2.1	1.2
Securities, long-term	2.9	2.4
Overdrafts on current accounts	5.9	7.4
Short-term loans	13.8	6.7
Long-term loans	1.8	2.7
Bonds	2.1	1.5

The interest rates refer to the maturity date of the respective financial asset/liability.

#### **d) Sensitivity analyses**

The Group's activities are exposed primarily to the financial risks of changes in foreign currency, changes in fair value, and changes in interest rates. The Group enters into financial derivatives to manage its exposure to foreign currency risk and the risk of changes in fair values. These market risk exposures are measured using sensitivity analyses:

##### **Foreign currency sensitivity**

Sensitivity analysis provides an approximate quantification of the exposure in the event that certain specified parameters were to be met under a specific set of assumptions. The Group is mainly exposed to the US dollar (USD) and the Swiss franc (CHF). The following explanations detail the Group's sensitivity to a rise or fall in the US dollar and Swiss franc against the Euro (EUR). The change shows the amount applied in internal reporting of foreign currency risk and reflects the Executive Board's assessment of the possible change in foreign exchange rates. The sensitivity analyses include the important outstanding foreign currency denominated monetary items.

The impacts on the net income compared to the net income recognized and on the equity compared to the equity stated, respectively, are as follows:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Rise in USD against EUR by 10%	(2,719)	(1,848)
Fall in USD against EUR by 10%	2,471	698
Rise in CHF against EUR by 10%	(1,438)	(1,096)
Fall in CHF against EUR by 10%	690	507

The changes in the net income compared to the reported net income comprises mainly the fair values of the forward foreign exchange contracts in US dollars and Swiss francs calculated with new foreign exchange rates.

### Interest rate sensitivity

The sensitivity analysis has been determined based on the bonds' exposure to interest rates. There is no risk of a changing interest rate concerning the cash flows for the company as the issuer of the fixed-interest bearing bonds, although there is the risk of changes in the fair value of the bonds. The company entered into swaps to hedge against this risk of changes in the fair value so that, on a net basis, the Group has the liability to pay a variable interest rate based on one-month Euribor and three-month Euribor, respectively.

A 100 basis point change in interest rate is used when reporting interest rate risk internally to key management personnel and represents the Executive Board's assessment of the possible change in interest rates.

If interest rates had been 100 basis points higher and all other variables were held constant, this would have caused a decrease of the fair value of the swaps in the amount of TEUR 8,664 (2010: decrease of TEUR 10,728). This change would be offset by a basis adjustment of the bonds in the same amount.

If interest rates had been 100 basis points lower and all other variables were held constant, this would have caused an increase of the fair value of the swaps in the amount of TEUR 6,938 (2010: increase of TEUR 11,394). This change would be offset by a basis adjustment of the bonds in the same amount.

A rise in the interest level by 100 basis points by simultaneously keeping constant all other variables would have led to an increase in the interest result of TEUR 13,032 in the business year 2011 (2010: rise by TEUR 9,345). A decline in the interest level would have led to a decrease in the interest result in the same amount.

## K) FINANCIAL INSTRUMENTS

### a) Fair value of financial instruments

The financial assets are basically recognized at fair value. Since hedge accounting (fair value hedge) is applied on bonds, measurement follows fair value accounting.

The following table discloses the carrying values of financial instruments with their fair values per class:

<i>(in TEUR)</i>	<b>Carrying value December 31, 2011</b>	<b>Market value December 31, 2011</b>	<b>Carrying value December 31, 2010</b>	<b>Market value December 31, 2010</b>
<b>ASSETS</b>				
<b>Other investments</b>				
Available for sale	28,622	28,622	14,102	14,102
Loans and receivables	207,269	207,269	5,884	5,884
<b>Receivables and other assets</b>				
Loans and receivables	1,168,081	1,168,081	1,072,244	1,072,244
At fair value through profit and loss – trading*	61,158	61,158	53,297	53,297
<b>Marketable securities</b>				
Available for sale	445,159	445,159	406,728	406,728
Cash and cash equivalents	1,169,888	1,169,888	1,187,946	1,187,946
	<b>3,080,177</b>	<b>3,080,177</b>	<b>2,740,201</b>	<b>2,740,201</b>
<b>LIABILITIES</b>				
<b>Financial liabilities</b>				
At fair value through profit and loss – designation	357,706	357,706	372,880	372,880
Measured at amortized costs	70,135	70,135	58,797	58,797
Not allocated to any IAS-39 valuation category	8,453	8,453	8,911	8,911
<b>Trade accounts payable</b>				
Measured at amortized costs	438,596	438,596	305,340	305,340
<b>Other liabilities</b>				
At fair value through profit and loss – trading	47,594	47,594	34,377	34,377
Measured at amortized costs	1,821,369	1,821,369	1,661,139	1,661,139
	<b>2,743,853</b>	<b>2,743,853</b>	<b>2,441,444</b>	<b>2,441,444</b>

\* Thereof hedging of cash flows TEUR 0 (2010: TEUR 861).



The following table discloses the IAS 39 valuation categories for the financial instruments:

<i>(in TEUR)</i>	<b>Carrying value December 31, 2011</b>	<b>Market value December 31, 2011</b>	<b>Carrying value December 31, 2010</b>	<b>Market value December 31, 2010</b>
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	1,169,888	1,169,888	1,187,946	1,187,946
<b>At fair value through profit and loss – trading</b>				
Derivatives*	38,685	38,685	40,847	40,847
Embedded derivatives	22,473	22,473	12,450	12,450
<b>Available for sale</b>				
Non-current securities and participations	28,622	28,622	14,102	14,102
Marketable securities	445,159	445,159	406,728	406,728
<b>Loans and receivables</b>				
Loans granted and loans against borrowers' notes	207,269	207,269	5,884	5,884
Non-current receivables and other non-current assets	33,168	33,168	16,429	16,429
Trade accounts receivable	581,367	581,367	510,148	510,148
Cost and earnings of projects under construction in excess of billings	290,490	290,490	339,886	339,886
Other receivables and assets – current	263,056	263,056	205,781	205,781
	<b>3,080,177</b>	<b>3,080,177</b>	<b>2,740,201</b>	<b>2,740,201</b>
<b>FINANCIAL LIABILITIES</b>				
<b>At fair value through profit and loss – trading</b>				
Derivatives	43,695	43,695	26,080	26,080
Embedded derivatives	3,899	3,899	8,297	8,297
<b>At fair value through profit and loss – designation</b>				
Bonds	357,706	357,706	372,880	372,880
<b>Financial liabilities measured at amortized costs</b>				
Bank loans and other financial liabilities	70,135	70,135	58,797	58,797
Trade accounts payable	438,596	438,596	305,340	305,340
Billings in excess of cost and earnings of projects under construction	1,068,292	1,068,292	993,706	993,706
Other liabilities	753,077	753,077	667,433	667,433
<b>Other liabilities, not allocated to any IAS 39 valuation category</b>				
Obligations under finance leases	8,453	8,453	8,911	8,911
	<b>2,743,853</b>	<b>2,743,853</b>	<b>2,441,444</b>	<b>2,441,444</b>

\* Thereof hedging of cash flows TEUR 0 (2010: TEUR 861).

The following table allocates financial assets and liabilities measured at fair value to the three levels of the fair value hierarchy. It distinguishes fair value measurements by the significance of the inputs used and reflects the availability of observable market inputs when estimating fair values.

## 2011

<i>(in TEUR)</i>	<b>Total at December 31, 2011</b>	<b>thereof level 1</b>	<b>thereof level 2</b>	<b>thereof level 3</b>
<b>FINANCIAL ASSETS</b>				
<b>At fair value through profit and loss – trading</b>				
Derivatives	38,685		38,685	
Embedded derivatives	22,473		22,473	
<b>Available for sale</b>				
Non-current securities and participations	28,662	2,876		25,746
Marketable securities	445,159	445,159		
	<b>534,939</b>	<b>448,035</b>	<b>61,158</b>	<b>25,746</b>
<b>FINANCIAL LIABILITIES</b>				
<b>At fair value through profit and loss – trading</b>				
Derivatives	43,695		43,695	
Embedded derivatives	3,899		3,899	
<b>At fair value through profit and loss – designation</b>				
Bonds	357,706			357,706
	<b>405,300</b>	<b>0</b>	<b>47,594</b>	<b>357,706</b>

## 2010

<i>(in TEUR)</i>	<b>Total at December 31, 2010</b>	<b>thereof level 1</b>	<b>thereof level 2</b>	<b>thereof level 3</b>
<b>FINANCIAL ASSETS</b>				
<b>At fair value through profit and loss – trading</b>				
Derivatives	40,847		40,847	
Embedded derivatives	12,450		12,450	
<b>Available for sale</b>				
Non-current securities and participations	14,102	2,664		11,438
Marketable securities	406,728	406,728		
	<b>474,127</b>	<b>409,392</b>	<b>53,297</b>	<b>11,438</b>
<b>FINANCIAL LIABILITIES</b>				
<b>At fair value through profit and loss – trading</b>				
Derivatives	26,080		26,080	
Embedded derivatives	8,297		8,297	
<b>At fair value through profit and loss – designation</b>				
Bonds	372,880			372,880
	<b>407,257</b>	<b>0</b>	<b>34,377</b>	<b>372,880</b>

The levels of the fair value hierarchy and their application to financial assets and liabilities are described below:

## Level 1:

Quoted prices in active markets for identical assets or liabilities.

## Level 2:

Inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

## Level 3:

Inputs for the asset or liability that are not based on observable market data.

The financial instruments at fair value classified at level 3 consist mainly of the bonds. They are reconciled as follows:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
<b>Balance as of January 1</b>	<b>372,880</b>	<b>371,553</b>
(Gains)/losses in income statement*	(873)	1,327
Settlements	(14,301)	0
<b>Balance as of December 31</b>	<b>357,706</b>	<b>372,880</b>
Total gains and losses for liabilities at the end of the period	(545)	1,327

\* Without consideration of gains or losses of the concluded swaps.

The fair value of the bonds depends among other things on the interest rate level and the creditworthiness of ANDRITZ AG. Please also refer to chapter J d) sensitivity analyses "Interest rate sensitivity", for information on the change in the interest rate level.

#### **b) Fair value calculation**

The fair value of foreign exchange forward contracts is determined using forward exchange market rates at the balance sheet date.

At the balance sheet date, the fair values of foreign exchange forward contracts with banks were as follows:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Forward contracts with positive fair values	16,373	17,106
Forward contracts with negative fair values	(43,227)	(26,080)
	<b>(26,854)</b>	<b>(8,974)</b>

The remaining terms of the foreign exchange forward contracts are as follows:

<i>(in TEUR)</i>	<b>not exceeding 1 year</b>	<b>more than 1 year</b>	<b>Total 2011</b>	<b>Total 2010</b>
US dollars	(9,409)	(3,997)	(13,406)	(484)
Swiss francs	(978)	(6,684)	(7,662)	(6,476)
Euros	(3,787)	(2,632)	(6,419)	(866)
Other currencies	15	618	633	(1,148)
	<b>(14,159)</b>	<b>(12,695)</b>	<b>(26,854)</b>	<b>(8,974)</b>

At the balance sheet date, the fair values of the embedded derivatives were as follows:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Embedded derivatives with positive fair values	22,473	12,450
Embedded derivatives with negative fair values	(3,899)	(8,297)
	<b>18,574</b>	<b>4,153</b>

The remaining terms of the embedded derivatives are as follows:

<i>(in TEUR)</i>	<b>not exceeding 1 year</b>	<b>more than 1 year</b>	<b>Total 2011</b>	<b>Total 2010</b>
US dollars	8,345	3,290	11,635	557
Swiss francs	107	6,457	6,564	4,655
Euros	(550)	737	187	(840)
Other currencies	188	0	188	(219)
	<b>8,090</b>	<b>10,484</b>	<b>18,574</b>	<b>4,153</b>

The fair value of the interest rate swaps presenting a total positive fair value as of December 31, 2011 was TEUR 22,312 (2010: TEUR 22,880).

The fair value of the commodity forward contracts presenting a total negative fair value as of December 31, 2011 was TEUR 468 (2010: TEUR 861). Thereof contracts representing an amount of TEUR 305 have a remaining term of less than one year (in 2010 TEUR 722).

#### Cash and cash equivalents, current and non-current financial assets

The carrying amount of cash and other financial assets approximates the fair value due to the relatively short-term maturity of these financial instruments.

#### Non-current and current securities

The fair values of publicly traded instruments are based on quoted market prices. Non-current securities of the Group are classified as available for sale and are valued at their quoted market price at the balance sheet date.

#### Receivables and payables

The historical carrying amounts of receivables and payables which are all subject to normal trade credit terms correspond basically to their fair values.

#### Short-term borrowings

The carrying amount approximates the fair value because of the short period to maturity of those instruments.

#### Long-term borrowings

The fair value of the long-term debts is based on the current interest rates available for debt with the same maturity profile. The fair value of non-current borrowings and other payables with variable interest rates approximates their carrying amounts. The risks from changes in fair value have been hedged by interest rate swaps. The Executive Board believes that the exposure to interest rate risk from the remaining financial assets and liabilities is negligible.

#### c) IAS 39 reserve

The table below shows the movements in the IAS 39 reserve in equity:

<i>(in TEUR)</i>	Unrealized gain (loss) on hedging activities	Unrealized gain (loss) on securities	Unrealized gain (loss) total IAS 39 reserve
<b>Balance as of December 31, 2009</b>	<b>975</b>	<b>182</b>	<b>1,157</b>
Gains and losses from changes in fair value	792	1,200	1,992
Deferred income taxes thereon	(198)	(288)	(486)
Transfers to income statement	(1,232)	(121)	(1,353)
Deferred income taxes thereon	308	30	338
<b>Balance as of December 31, 2010</b>	<b>645</b>	<b>1,003</b>	<b>1,648</b>
Gains and losses from changes in fair value	0	(1,564)	(1,564)
Deferred income taxes thereon	0	389	389
Transfers to income statement	(861)	484	(377)
Deferred income taxes thereon	216	(123)	93
<b>Balance as of December 31, 2011</b>	<b>0</b>	<b>189</b>	<b>189</b>

The net gains and losses for each category of financial instruments are as follows:

#### 2011

<i>(in TEUR)</i>	Held for trading	Held for trading	Available for sale
	Derivatives	Embedded derivatives	Securities
Changes in fair values recognized in profit or loss	(18,055)	14,421	(484)
Changes in fair values recognized in equity	0		(1,564)
Recycling out of equity	(861)		484
<b>Net gains/(losses)</b>	<b>(18,916)</b>	<b>14,421</b>	<b>(1,564)</b>

#### 2010

<i>(in TEUR)</i>	Held for trading	Held for trading	Available for sale
	Derivatives	Embedded derivatives	Securities
Changes in fair values recognized in profit or loss	(4,090)	6,020	121
Changes in fair values recognized in equity	792		1,200
Recycling out of equity	(1,232)		(121)
<b>Net gains/(losses)</b>	<b>(4,530)</b>	<b>6,020</b>	<b>1,200</b>

## L) LEASES

The Group has entered into various operating lease agreements for machinery, offices, and other facilities as lessee. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt, or further leasing.

Future minimum lease payments under non-cancellable operating leases are as follows:

<i>(in TEUR)</i>	2011	2010
Not exceeding 1 year	24,995	19,411
1 year to 5 years	39,866	35,895
After 5 years	5,767	12,614
	<b>70,628</b>	<b>67,920</b>

ANDRITZ leases equipment used in its operations classified as finance leases and mainly comprising the leases of property. Future minimum lease payments for non-cancellable finance leases are:

<i>(in TEUR)</i>	2011	2010
Not exceeding 1 year	1,126	1,131
1 year to 5 years	2,654	2,939
After 5 years	7,399	7,923
<b>Total minimum lease payments</b>	<b>11,179</b>	<b>11,993</b>
Less amount representing interest	(2,726)	(3,082)
<b>Present value of lease payments</b>	<b>8,453</b>	<b>8,911</b>
Less current portion	(757)	(748)
<b>Non-current lease obligations</b>	<b>7,696</b>	<b>8,163</b>

## M) CONTINGENT LIABILITIES AND OFF-BALANCE SHEET TRANSACTIONS

Various legal actions and claims are pending or may be asserted in the future against Group companies incidental to the ordinary course of the Group's business. These actions and claims typically involve project-related disputes, intellectual property matters, labor matters, and product liability issues. Although the outcome of an action or claim cannot be ascertained with precision, the Executive Board believes, subject to the following paragraph, that the outcome of these legal actions and claims, individually or in the aggregate, should not have a significant adverse effect on the company's business, liquidity, result of operations, or financial position.

As of December 2011, ANDRITZ Inc., as subsidiary of the company, was one of many defendants in a total of 58 asbestos cases in the US. Nearly all of these cases involve claims against multiple defendants. On aggregate, the cases involve a total of 450 plaintiffs. ANDRITZ Inc. plans to vigorously defend each claim. As the vast majority of claims against ANDRITZ Inc. have not as yet been stated with specificity, it is not possible for to assess the full extent of its potential exposure to asbestos litigation.

There are no take-back obligations other than the guarantee claims customary within the industry. The Executive Board is not aware of any further risks and rewards originating from off-balance sheet transactions.

## N) RELATED PARTY TRANSACTIONS

Transactions with associated companies and non-consolidated companies are not material. As the Group's transfer-pricing policy provides for transfer pricing at arm's length, no transactions are conducted that do not comply with market standards. The non-inclusion of non-consolidated entities in the consolidated financial statements has no significant impact on the Group's net assets, financial position, and results of operations. The amounts are as follows:

<i>(in TEUR)</i>	2011	2010
Receivables	9,150	7,854
Payables	5,831	3,725
Sales	4,687	1,281
Expense	(24,368)	(19,401)

Slightly less than 30% of the shares are held by Certus Beteiligungs-GmbH, whose Managing Director is Wolfgang Leitner, President and Chief Executive Officer of ANDRITZ AG.

Transactions with companies in which members of the Supervisory Board respectively the Executive Board of ANDRITZ AG are active are negligible in scope.

#### Emoluments of the Executive Board

The remuneration of the Executive Board is composed of a fixed and a variable/success-based portion. The amount of the variable portion depends on the net income, including the consideration of linear goodwill amortization. For new contracts with members of the Executive Board, the maximum value for the variable annual remuneration was fixed at three times the fixed annual remuneration. Any amounts in excess of this sum will be credited as a variable remuneration for the following years. If the net income of the Group falls short of a defined minimum amount, this results in a 'malus' that is also carried forward to the following years and to a reduction in future variable salary components.

In all share option programs for managerial staff and the Executive Board since the IPO, participation was contingent on investing at least 20,000 EUR in ANDRITZ shares for managerial staff and 40,000 EUR for members of the Executive Board not later than the allocation date of the options. This investment must be maintained continuously until exercise of the options by those persons subscribing to the option program and evidence thereof must be brought when the options are exercised. There is a waiting period of three years before options can be exercised if the contract of employment is still in force (exception: end of employment contract as scheduled according to contract provisions).

The members of the Executive Board are entitled to receive pension scheme benefits. In addition to a retirement pension, these include benefits in the event of occupational disability, as well as pension payments for dependents following the death of the beneficiary. The retirement pension is normally paid as from a certain age provided that the employment contract has already been terminated by this date. The administration work has been outsourced to a pension fund. In the event that the employment contract is terminated prematurely, contributions made up to this point shall still be vested. The pension amount to which the beneficiary is entitled is not subject to an escalation clause before any benefits become payable, but will be adjusted annually thereafter.

Each member of the Executive Board shall, upon termination of his/her function and concurrent termination of employment, be entitled to severance payments in the meaning of Article 23 of the Austrian Employees Act unless such termination is the result of justified dismissal.

The principles applied in establishing the remuneration of the Executive Board and of senior managers comply with the Austrian Code of Corporate Governance.

The following expenses have been recognized for the Executive Board:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Short-term benefits	10,114	8,375
Post-employment benefits	399	611
Share-based expenses	541	737
	<b>11,054</b>	<b>9,723</b>

A provision of TEUR 4,446 in 2011 (TEUR 4,178 in 2010) was recorded for pensions of former members of the Executive Board and their dependants; the current year expense for these pensions amounted to TEUR 825 for 2011 (TEUR 458 for 2010).

ANDRITZ AG took out Directors' and Officers' liability insurance (D&O insurance) for 2011. The expenses are borne by the company. The D&O insurance covers certain personal liability risks of persons in the ANDRITZ GROUP acting under responsibility. The annual cost is approximately TEUR 240.

#### Remuneration of the Supervisory Board

The remuneration scheme of the Supervisory Board is composed of a fixed and an attendance-related portion. The fixed portion is a global sum, which is to be distributed such that the chairman of the Supervisory Board receives double the amount and his deputy one-and-a-half-times the amount paid to the other members. The second portion consists of a lump sum fee paid in respect of each meeting that the member attends. The members of the Supervisory Board collectively received remunerations in the amount of TEUR 110 (2010: TEUR 113).

**O) EXPENSES FOR SERVICES RENDERED BY THE GROUP AUDITOR**

The expenses for services rendered by the group auditor comprise the following:

<i>(in TEUR)</i>	<b>2011</b>	<b>2010</b>
Year-end audit	378	273
Tax advisory services	151	81
	<b>529</b>	<b>354</b>

**P) LIST OF SUBSIDIARIES**

<b>Company</b>	<b>Headquarters</b>	<b>Interest</b>	<b>Type of consolidation</b>	<i>Re- marks</i>
Anstalt für Strömungsmaschinen GmbH	Graz, Austria	100%	NC	1)
ANDRITZ Technology and Asset Management GmbH	Graz, Austria	100%	FC	
ANDRITZ Finance GmbH	Vienna, Austria	100%	FC	
ANDRITZ Power & Water GmbH	Vienna, Austria	100%	FC	
ANDRITZ Energy & Environment GmbH	Raaba, Austria	100%	FC	
AE&E Energy & Environmental Engineering (Shanghai) Co Ltd.	Shanghai, China	100%	NC	1)
AE Energietechnik GmbH	Raaba, Austria	100%	NC	1)
AFB Holding GmbH	Graz, Austria	75%	NC	1)
ANDRITZ Feed & Biofuel (China) Limited	Foshan, China	75%	NC	1)
European Mill Service GmbH	Graz, Austria	50%	NC	1)
ANDRITZ R&M Service S.R.L.	Bucharest, Romania	27,5%	NC	1)
ANDRITZ HYDRO GmbH	Vienna, Austria	100%	FC	
ANDRITZ HYDRO S.A.S.	Grenoble, France	100%	FC	
ANDRITZ HYDRO Private Limited	Bhopal, India	100%	FC	
ANDRITZ Deutschland Beteiligungs GmbH	Krefeld, Germany	100%	FC	
ANDRITZ GmbH	Hemer, Germany	100%	FC	
ANDRITZ Kaiser GmbH	Bretten-Gölshausen, Germany	100%	FC	
Andritz Sundwig GmbH	Hemer, Germany	75%	FC	
ANDRITZ Fiedler GmbH	Regensburg, Germany	100%	FC	
ANDRITZ Separation GmbH	Cologne, Germany	100%	FC	
ANDRITZ Jochman s.r.o.	Spišská Nová Ves, Slovakia	100%	FC	
ANDRITZ Fliessbett Systeme GmbH	Ravensburg, Germany	100%	FC	
Lenser Verwaltungs GmbH	Senden, Germany	100%	FC	
ANDRITZ S.R.L.	Cisnădie, Romania	100%	NC	1)
Lenser Filtration GmbH	Senden, Germany	100%	FC	
Lenser Asia Sdn. Bhd.	Selangor, Malaysia	100%	FC	
ANDRITZ HYDRO GmbH	Ravensburg, Germany	100%	FC	
ANDRITZ Küsters GmbH	Krefeld, Germany	100%	FC	
ANDRITZ Kufferath GmbH	Düren, Germany	100%	FC	
AKRE Real Estate GmbH	Düren, Germany	100%	FC	
ANDRITZ Maerz GmbH	Düsseldorf, Germany	100%	FC	
Modul Systeme Engineering AG	Laufen, Germany	50%	NC	1)
Modul Systeme Projekt Verwaltungs GmbH	Laufen, Germany	50%	NC	1)
Modul Systeme Projekt GmbH & Co. KG	Laufen, Germany	50%	NC	1)
Modul Seeger Verwaltungs GmbH	Laufen, Germany	25%	NC	1)
Springer Maschinen- und Reparatur-Service GmbH	Springe, Germany	50%	NC	1)
ANDRITZ KMPT GmbH	Vierkirchen, Germany	100%	FC	
ANDRITZ KMPT Inc.	Florence, Delaware, USA	100%	FC	
ANDRITZ Ritz GmbH	Schwäbisch Gmünd, Germany	100%	FC	
Ritz Verwaltungs GmbH	Schwäbisch Gmünd, Germany	100%	NC	1)
ANDRITZ Atro GmbH	Roding, Germany	100%	FC	
Ritz Pumps Pte Ltd.	Singapore, Singapore	100%	FC	
Ritz Pumps South Africa (Pty) Ltd.	Boksburg, South Africa	23%	NC	1)
ANDRITZ Ritz Immobilien GmbH	Krefeld, Germany	100%	FC	
TANIAM GmbH & Co. KG	Pullach im Isartal, Germany	100%	FC	
ANDRITZ HYDRO S.L.	Madrid, Spain	100%	FC	
ANDRITZ HYDRO S.r.l., Unipersonale	Vicenza, Italy	100%	FC	
ANDRITZ HYDRO Aosta S.r.l., Unipersonale	Aosta, Italy	100%	NC	1)
ANDRITZ HYDRO AG	Kriens, Switzerland	100%	FC	
ANDRITZ HYDRO S.A. de C.V.	Morelia, Mexico	100%	FC	
ANDRITZ HYDRO AS	Jevnaker, Norway	100%	FC	
ANDRITZ HYDRO S.A.	El Dorado, Panama	100%	NC	1)
ANDRITZ HYDRO Brasil Ltda.	São Paulo, Brazil	100%	FC	
ANDRITZ HYDRO Ltd. Sti.	Ankara, Turkey	100%	FC	
PT. ANDRITZ HYDRO	Jakarta, Indonesia	51%	FC	
ANDRITZ HYDRO S.A.	Lima, Peru	100%	NC	1)
ANDRITZ HYDRO (Pty) Ltd.	Kyalami, South Africa	100%	NC	1)
ANDRITZ HYDRO Ltda.	Bogotá, Colombia	100%	FC	
ANDRITZ HYDRO s.r.o.	Prague, Czech Republic	100%	NC	1)
ANDRITZ India Private Limited	New Delhi, India	100%	NC	1)
ANDRITZ HYDRO C.A.	Caracas, Venezuela	100%	NC	1)
ANDRITZ POWER Sdn. Bhd.	Kuala Lumpur, Malaysia	30%	FC	
ANDRITZ HYDRO Inc.	Makati City, Philippines	100%	NC	1)
PHP Philippines HYDRO Project Inc.	Makati City, Philippines	25%	NC	1)
Hammerfest Strom AS	Hammerfest, Norway	33.3%	EQ	

Hammerfest Strøm UK Ltd.	Glasgow, United Kingdom	33,3%	EQ
The Hydro Equipment Association Limited	Leeds, United Kingdom	33,3%	NC 1)
HGI Holdings Limited	Limassol, Cyprus	100%	NC 1)
AP Anlage-Projektierungs AG	Bülach, Switzerland	100%	FC
ANDRITZ Separation (India) Private Ltd.	Chennai, India	100%	FC
ACB Entwicklungsgesellschaft mbH	Vienna, Austria	73%	NC 1)
ANDRITZ FEED & BIOFUEL A/S	Esbjerg, Denmark	100%	FC
ANDRITZ FEED & BIOFUEL Brasil Ltda.	Porto Alegre, Brazil	100%	NC 1)
ANDRITZ FEED & BIOFUEL s.r.o.	Humenné, Slovakia	100%	NC 1)
ANDRITZ Chile Ltda.	Santiago de Chile, Chile	100%	FC
ANDRITZ (USA) Inc.	Roswell, Georgia, USA	100%	FC
ANDRITZ Inc.	Roswell, Georgia, USA	100%	FC
ANDRITZ Finance Inc.	Tualatin, Oregon, USA	100%	FC
Delta Holding Corporation	Tualatin, Oregon, USA	100%	FC
ANDRITZ Separation Inc.	Arlington, Texas, USA	100%	FC
ANDRITZ AUTOMATION Inc.	Decatur, Georgia, USA	100%	FC
ANDRITZ HYDRO Corp.	Charlotte, North Carolina, USA	100%	FC
Precision Machine and Supply, Inc.	Spokane, Washington, USA	51%	FC
ANDRITZ S. A. S.	Vélizy-Villacoublay, France	100%	FC
ANDRITZ Selas S.A.S.	Asnières-sur-Seine, France	100%	FC
Lenser Filtration S.a.r.l.	Haguenau, France	100%	FC
Jaybee Eng. (Holdings) Pty. Ltd.	Carrum Downs, Australia	100%	FC
ANDRITZ Pty. Ltd.	Carrum Downs, Australia	100%	FC
ANDRITZ Ingeniería S.A.	Madrid, Spain	100%	FC
ANDRITZ Brasil Ltda.	Curitiba, Brazil	100%	FC
ANDRITZ Separation Indústria e Comércio de Equipamentos de Filtração Ltda.	Pomerode, Brazil	100%	FC
Sindus ANDRITZ Ltda.	Porto Alegre, Brazil	100%	FC
ANDRITZ HYDRO Inepar do Brasil S/A	São Paulo, Brazil	50%	FC
ANDRITZ Pilão Equipamentos Ltda.	São Paulo, Brazil	100%	FC
ANDRITZ Oy	Helsinki, Finland	100%	FC
Savonlinna Works Oy	Savonlinna, Finland	100%	FC
ANDRITZ HYDRO Oy	Tampere, Finland	100%	FC
Carbona Oy	Helsinki, Finland	80%	NC 1)
Warkaus Works Oy	Varkaus, Finland	50%	EQ
Enmas ANDRITZ Pvt. Ltd.	Chennai, India	40%	EQ
Viafin Brazil Oy	Teuva, Finland	40%	EQ
A&V MONTAGENS INDUSTRIAIS Ltda.	Lapa, Brazil	40%	EQ
ANDRITZ HYDRO Canada Inc.	Peterborough, Ontario, Canada	100%	FC
ANDRITZ HYDRO Ltée/Ltd.	Pointe-Claire, Quebec, Canada	100%	FC
ANDRITZ HYDRO Installations Inc.	Pointe-Claire, Quebec, Canada	100%	NC 1)
ANDRITZ Ltd./Ltée.	Lachine, Quebec, Canada	100%	FC
ANDRITZ Paper Machinery Ltd.	Lachine, Quebec, Canada	100%	FC
Universal Dynamics Group Ltd.	Richmond, British Columbia, Canada	100%	FC
ANDRITZ AUTOMATION Ltd.	Richmond, British Columbia, Canada	100%	FC
IDEAS Simulation & Control Ltd.	Richmond, British Columbia, Canada	100%	FC
Universal Dynamics Group (USA) Ltd.	Richmond, British Columbia, Canada	100%	FC
Universal Dynamics America Corp.	Bellingham, Washington, USA	100%	FC
Hemi Controls Inc.	Chambly, Quebec, Canada	100%	FC
ANDRITZ AB	Örnsköldsvik, Sweden	100%	FC
ANDRITZ HYDRO AB	Näliden, Sweden	100%	FC
ANDRITZ Ltd.	Newcastle-under-Lyme, United Kingdom	100%	FC
ANDRITZ Technologies Ltd.	Foshan, China	100%	FC
ANDRITZ-Wolfensberger Special Alloy Foundry Co., Ltd.	Foshan, China	95%	FC
ANDRITZ Technologies H.K. Ltd.	Hong Kong, China	100%	FC
ANDRITZ Thermtec Holding B.V.	Rotterdam, The Netherlands	100%	FC
ANDRITZ Thermtec B.V.	Rotterdam, The Netherlands	100%	FC
ANDRITZ Technologies Private Limited	Bangalore, India	100%	EQ
ANDRITZ FEED & BIOFUEL Ltd.	Hull, United Kingdom	100%	FC
ANDRITZ FEED & BIOFUEL B.V.	Geldrop, The Netherlands	100%	FC
ANDRITZ B.V.	Den Helder, The Netherlands	100%	FC
ANDRITZ 3SYS AG	Hendschiken, Switzerland	100%	FC
ANDRITZ Singapore Pte. Ltd.	Singapore, Singapore	100%	FC
ANDRITZ (Thailand) Ltd.	Bangkok, Thailand	100%	NC 1)
ANDRITZ Uruguay S.A.	Fray Bentos, Uruguay	100%	FC
ANDRITZ Pulp Technologies Punta Pereira S.A.	Montevideo, Uruguay	100%	FC
ANDRITZ K.K.	Tokyo, Japan	100%	FC
ANDRITZ Delkor (Pty) Ltd.	Kyalami, South Africa	100%	FC
GKD Delkor (Pty) Ltd.	Kyalami, South Africa	100%	NC 1)
PT. ANDRITZ	Jakarta, Indonesia	100%	FC
LLC ANDRITZ	St. Petersburg, Russia	100%	FC
LLC ANDRITZ HYDRO	Moscow, Russia	100%	NC 1)
ANDRITZ Kufferath s.r.o.	Levice, Slovakia	100%	FC
ANDRITZ Kft.	Tiszaújváros, Hungary	100%	FC
ANDRITZ Perfojet S.A.S.	Montbonnot Saint-Martin, France	100%	FC
ANDRITZ Biax S.A.S.	Le Bourget du Lac, France	100%	FC
ANDRITZ Frautech S. r. l.	Vicenza, Italy	100%	FC
Larvik Cell Holding AS	Jevnaker, Norway	100%	NC 1)
ANDRITZ Biax GmbH	Graz, Austria	100%	NC 1)
ANDRITZ Como S.r.l.	Grandate, Italia	100%	NC 1)



ANDRITZ Asselin-Thibeau S.A.S.	Elbeuf, France	100%	FC
ProGENF IP GmbH	Wolfsburg, Germany	30%	NC 1)
ANDRITZ Iggesund Tools International AB	Igesund, Sweden	100%	FC
Igesund Tools Deutschland GmbH	Burgsinn, Germany	100%	NC 1)
ANDRITZ Iggesund Tools Canada Inc.	Laval, Quebec, Canada	100%	FC
ANDRITZ Iggesund Tools AB	Igesund, Sweden	100%	FC
ANDRITZ Iggesund Tools Europa AB	Igesund, Sweden	100%	FC
ANDRITZ Boisfer Iggesund SAS	Miribel, France	100%	FC
ANDRITZ Iggesund Tools Norge AS	Larvik, Norway	100%	NC 1)
ANDRITZ Iggesund Tools Oy	Helsinki, Finland	100%	NC 1)
Igesund Tools Australia Pty. Ltd.	Mooroolbark, Australia	100%	NC 1)
ANDRITZ Iggesund Tools, Inc.	Oldsmar, Florida, USA	100%	FC
Igesund Tools New Zealand Ltd.	Tauranga, New Zealand	100%	NC 1)

1) immaterial  
FC ... Full Consolidation  
EQ ... Equity accounting  
NC ... No Consolidation

Graz, February 23, 2012

Wolfgang Leitner m. p.  
President and CEO

Karl Hornhofer m. p.

Humbert Köfler m. p.

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**Graphic design:** Faschingbauer & Schaar

**Printed by:** Medienfabrik

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Certain statements contained in the annual report 2011 and annual financial report 2011 constitute “forward-looking statements.” These statements, which contain the words “believe”, “intend”, “expect”, and words of a similar meaning, reflect the Executive Board’s beliefs and expectations and are subject to risks and uncertainties that may cause actual results to differ materially. As a result, readers are cautioned not to place undue reliance on such forward-looking statements. The company disclaims any obligation to publicly announce the result of any revisions to the forward-looking statements made herein, except where it would be required to do so under applicable law. The annual report 2011 and the annual financial report 2011 contain assumptions and forecasts which were based on the information available up to the copy deadline on February 24, 2012. If the premises for these assumptions and forecasts do not occur, or risks indicated in the chapter “Corporate risks” and in the status report in the annual financial report 2011 do arise, actual results may vary from the forecasts made in the annual report 2011 and annual financial report 2011. Although the greatest caution was exercised in preparing data, all information related to the future is provided without guarantee.

# www.andritz.com new

If you want to find out more about ANDRITZ, you've come to the right address at [www.andritz.com](http://www.andritz.com). At our new website, you can find all important information on the ANDRITZ GROUP and its five business areas, our entire range of products and services, current news on major orders, acquisitions, and financial results, all the ANDRITZ locations worldwide, and the online version of the annual report and annual financial report with numerous useful features.

The screenshot displays the ANDRITZ website homepage. On the left, a navigation menu lists categories: GROUP (About us, News and media, Investor Relations), HYDRO, PULP & PAPER, SEPARATION, METALS, and FIELDS & BIOFUEL. Below these are tools like 'Product finder', 'Location finder', and 'Jobs and careers'. The main content area features a large banner image of a waterfall with the text 'Welcome to ANDRITZ' and a description of the company's global market leadership. Below the banner, a 'Latest press releases' section highlights three items: 'RESULTS 2011' (dated 2012-03-01), 'Successful start-up of the ANDRITZ tissue machine for Fushun Mining Group, China' (dated 2012-01-31), and 'ANDRITZ receives major order for pumped storage power station in Portugal' (dated 2011-11-26). At the bottom, there are sections for 'Product finder', 'Renewable energy', 'News and media', and 'ANDRITZ share price'. The footer contains links for 'Sitemap', 'Imprint', 'Legal terms and conditions', and a copyright notice for © ANDRITZ 2012.

# Global faces

International technology Group ANDRITZ has many faces. In figures, there are more than 16,500 employees all over the world, making their own personal contribution to the success of ANDRITZ, day after day. While some develop visions and strategies for our company's prosperous future, others are researching new technologies in the labs so that we can offer our customers the best possible solutions. There are long-serving skilled workers who machine our products manually, millimeter by millimeter, and pass on their experience to young apprentices at the same time. And there are engineers designing new plants on computers, while their children play in the ANDRITZ kindergarten – young people who perhaps will also become ANDRITZ engineers one day. The employees introduced in the annual report 2011 represent the "global faces" of ANDRITZ that have contributed to the success of the 2011 business year. The annual report is available at [reports.andritz.com/2011/](http://reports.andritz.com/2011/) – or request a printed copy free of charge by e-mailing: [investors@andritz.com](mailto:investors@andritz.com)

