

ANNUAL  
**FINANCIAL  
REPORT**  
2012



**ANDRITZ**

# KEY FINANCIAL FIGURES OF THE ANDRITZ GROUP

	<i>Unit</i>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Order intake	MEUR	4,924.4	5,706.9	4,131.9	3,349.3	3,705.3
Order backlog (as of end of period)	MEUR	6,614.8	6,683.1	5,290.9	4,434.5	4,277.4
Sales	MEUR	5,176.9	4,596.0	3,553.8	3,197.5	3,609.8
Return on sales <sup>1)</sup>	%	6.5	6.8	6.9	4.6	6.1
EBITDA <sup>2)</sup>	MEUR	418.6	386.2	307.3	218.2	278.2
EBITA <sup>3)</sup>	MEUR	357.8	331.5	257.6	164.1	233.2
Earnings Before Interest and Taxes (EBIT)	MEUR	334.5	312.7	245.5	147.1	218.5
Earnings Before Taxes (EBT)	MEUR	331.6	321.7	247.9	149.6	210.5
Net income (including non-controlling interests)	MEUR	242.2	231.5	177.0	102.9	147.0
Net income (without non-controlling interests)	MEUR	243.6	230.7	179.6	96.8	139.7
Cash flow from operating activities	MEUR	346.5	433.8	704.5	345.7	255.0
Capital expenditure <sup>4)</sup>	MEUR	109.1	77.0	68.8	70.5	69.7
Free cash flow <sup>5)</sup>	MEUR	239.7	361.1	644.9	285.6	187.5
Free cash flow per share <sup>6)</sup>	EUR	2.3	3.5	6.2	2.7	1.8
Employees (as of end of period; without apprentices)	-	17,865	16,750	14,655	13,049	13,707
Fixed assets	MEUR	1,390.5	1,151.8	858.9	731.4	732.1
Current assets	MEUR	3,770.5	3,414.8	3,176.9	2,577.9	2,354.2
Total shareholders' equity <sup>7)</sup>	MEUR	1,033.8	938.9	794.4	663.5	577.4
Provisions	MEUR	725.4	667.3	582.8	529.9	477.3
Liabilities	MEUR	3,401.8	2,960.4	2,658.6	2,115.9	2,031.6
Total assets	MEUR	5,161.0	4,566.6	4,035.8	3,309.3	3,086.3
Equity ratio <sup>8)</sup>	%	20.0	20.6	19.7	20.0	18.7
Return on equity <sup>9)</sup>	%	32.1	34.3	31.2	22.5	36.5
Return on investment <sup>10)</sup>	%	6.5	6.8	6.1	4.4	7.1
Liquid funds <sup>11)</sup>	MEUR	2,047.8	1,814.5	1,594.7	1,082.1	821.8
Net liquidity <sup>12)</sup>	MEUR	1,285.7	1,400.6	1,177.0	677.9	408.9
Net debt <sup>13)</sup>	MEUR	-1,053.3	-1,198.4	-992.0	-505.3	-242.9
Net working capital <sup>14)</sup>	MEUR	-631.5	-639.2	-556.1	-104.3	22.7
Capital employed <sup>15)</sup>	MEUR	-36.2	-128.6	-86.0	285.9	406.8
Gearing <sup>16)</sup>	%	-101.9	-127.6	-124.9	-76.2	-42.1
EBITDA margin	%	8.1	8.4	8.6	6.8	7.7
EBITA margin	%	6.9	7.2	7.2	5.1	6.5
EBIT margin	%	6.5	6.8	6.9	4.6	6.1
Net income/sales	%	4.7	5.0	5.0	3.2	4.1
ROE <sup>17)</sup>	%	23.4	24.7	22.3	15.5	25.5
EV <sup>18)</sup> /EBITDA	-	9.0	5.0	7.8	6.5	1.9
Depreciation and amortization/sales	%	1.6	1.6	1.7	2.0	1.5

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 22,942 TEUR (2011: 17,839 TEUR), and impairment of goodwill at the amount of 397 TEUR (2011: 1,000 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 marketable securities, cash and cash equivalents as well as loans against borrowers' notes) 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

All figures according to IFRS. Due to the utilization of automatic calculation programs, differences can arise in the addition of rounded totals and percentages. MEUR = million euros. TEUR = thousand euros.

## KEY FINANCIAL FIGURES OF THE BUSINESS AREAS

<b>HYDRO</b>	<i>Unit</i>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Order intake	MEUR	2,008.4	2,096.2	1,870.1	1,693.9	1,543.4
Order backlog (as of end of period)	MEUR	3,842.3	3,671.4	3,376.0	2,894.5	2,590.1
Sales	MEUR	1,836.8	1,772.9	1,579.2	1,378.0	1,205.9
EBITDA	MEUR	182.4	174.3	139.9	120.9	105.7
EBITDA margin	%	9.9	9.8	8.9	8.8	8.8
EBITA	MEUR	153.2	147.7	118.0	100.5	87.9
EBITA margin	%	8.3	8.3	7.5	7.3	7.3
Capital expenditure	MEUR	56.7	44.3	41.5	44.5	35.0
Employees (as of end of period; without apprentices)	-	7,469	7,285	6,530	5,993	5,606

<b>PULP &amp; PAPER</b>	<i>Unit</i>	<b>2012</b>	<b>2011*</b>	<b>2010*</b>	<b>2009*</b>	<b>2008*</b>
Order intake	MEUR	1,962.4	2,694.1	1,415.5	940.0	1,065.4
Order backlog (as of end of period)	MEUR	2,018.1	2,230.0	1,107.3	782.6	762.0
Sales	MEUR	2,282.2	1,884.9	1,129.8	925.5	1,355.2
EBITDA	MEUR	156.2	138.1	99.9	41.7	84.6
EBITDA margin	%	6.8	7.3	8.8	4.5	6.2
EBITA	MEUR	134.6	120.4	82.2	17.2	66.4
EBITA margin	%	5.9	6.4	7.3	1.9	4.9
Capital expenditure	MEUR	36.4	22.5	18.4	17.8	22.1
Employees (as of end of period; without apprentices)	-	6,774	6,208	5,046	4,418	5,354

<b>SEPARATION</b>	<i>Unit</i>	<b>2012</b>	<b>2011*</b>	<b>2010*</b>	<b>2009*</b>	<b>2008*</b>
Order intake	MEUR	468.2	438.8	397.2	288.4	329.6
Order backlog (as of end of period)	MEUR	258.0	250.8	234.6	135.7	142.6
Sales	MEUR	468.0	419.9	350.9	300.4	338.0
EBITDA	MEUR	39.3	42.7	33.3	29.6	32.0
EBITDA margin	%	8.4	10.2	9.5	9.9	9.5
EBITA	MEUR	34.7	36.7	28.0	24.9	27.2
EBITA margin	%	7.4	8.7	8.0	8.3	8.0
Capital expenditure	MEUR	3.7	4.0	3.7	2.8	5.5
Employees (as of end of period; without apprentices)	-	1,915	1,752	1,621	1,150	1,185

<b>METALS</b>	<i>Unit</i>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Order intake	MEUR	324.2	318.6	302.7	296.2	611.5
Order backlog (as of end of period)	MEUR	451.4	465.1	521.0	564.1	736.2
Sales	MEUR	404.7	372.7	340.2	473.4	566.2
EBITDA	MEUR	28.0	21.5	21.2	23.2	42.6
EBITDA margin	%	6.9	5.8	6.2	4.9	7.5
EBITA	MEUR	25.1	19.4	18.4	20.5	40.1
EBITA margin	%	6.2	5.2	5.4	4.3	7.1
Capital expenditure	MEUR	2.6	1.8	1.9	2.0	4.3
Employees (as of end of period; without apprentices)	-	1,129	945	937	971	996

<b>FEED &amp; BIOFUEL</b>	<i>Unit</i>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Order intake	MEUR	161.2	159.2	146.4	130.8	155.4
Order backlog (as of end of period)	MEUR	45.0	65.8	52.0	57.6	46.5
Sales	MEUR	185.2	145.6	153.7	120.2	144.5
EBITDA	MEUR	12.7	9.6	13.0	2.8	13.3
EBITDA margin	%	6.9	6.6	8.5	2.3	9.2
EBITA	MEUR	10.2	7.3	11.0	1.0	11.6
EBITA margin	%	5.5	5.0	7.2	0.8	8.0
Capital expenditure	MEUR	9.7	4.4	1.8	3.4	2.9
Employees (as of end of period; without apprentices)	-	578	560	522	517	566

\* In 2012, there was a minor shift of some products from the SEPARATION business area to the PULP & PAPER business area. Comparison figures for the previous years have been adjusted.

## COMPANY PROFILE

### **ANDRITZ GROUP**

The ANDRITZ GROUP is a globally leading supplier of plants, equipment, and services for hydropower stations, the pulp and paper industry, solid/liquid separation in the municipal and industrial sectors, the steel industry, and the production of animal feed and biomass pellets. The publicly listed, international technology Group is headquartered in Graz, Austria, and had a staff of around 17,900 employees as of end of 2012. ANDRITZ operates over 180 production sites as well as service and sales companies all around the world.

### **ANDRITZ business areas**

The ANDRITZ GROUP ranks among the global market leaders in all five of its business areas. One of the Group's overall strategic goals is to strengthen and extend this position. At the same time, the company aims to secure the continuation of profitable growth in the long term.

#### **ANDRITZ HYDRO**

supplies electromechanical equipment for hydropower stations. With over 170 years of accumulated experience and more than 30,000 turbines installed totaling approximately 400,000 megawatts output, the business area is one of the world's leading suppliers for hydraulic power generation, offering the complete product portfolio, including turbines, generators, and additional equipment of all types and sizes: "from water to wire" for small-scale hydropower stations up to outputs of more than 800 megawatts. ANDRITZ HYDRO also holds a top position in the growing hydropower plant service, refurbishment, and upgrade market. Pumps (for water transport, irrigation, and applications for various industries) and turbogenerators for thermal power stations are also allocated to the business area.

#### **ANDRITZ PULP & PAPER**

is a leading global supplier of equipment, systems, and services for the production and processing of all types of pulps, paper, tissue, and board. The technologies cover processing of logs, annual fibers, and waste paper, production of chemical pulp, mechanical pulp, and recycled fibers, recovery and reuse of chemicals, preparation of paper machine furnish, production of paper, tissue, and board, calendaring and coating of paper, as well as treatment of reject materials and sludge. The service range includes modernization, rebuilds, spare and wear parts, service and maintenance, as well as machine transfer and second-hand equipment. Biomass, steam, and recovery boilers, gasification plants for energy production, flue gas cleaning plants, biomass torrefaction, and plants for the production of nonwovens, dissolving pulp, plastic films, and panelboards (MDF) are also allocated to the business area.

#### **ANDRITZ SEPARATION**

is one of the leading suppliers of technologies and services in the solid/liquid separation and thermal treatment areas for the environmental sector (particularly treatment of municipal and industrial wastewater), for mining and mineral processing, the chemical industry, and for the food and beverages industry. The extensive portfolio covers centrifuges, filters, thermal systems, screens, thickeners, separators, conveying equipment, as well as torrefaction of biomass. Based on 150 years of experience, ANDRITZ SEPARATION is a long-term service partner for the entire life cycle of customer plants, including delivery of wear and spare parts, modernization, and process optimization.

#### **ANDRITZ METALS**

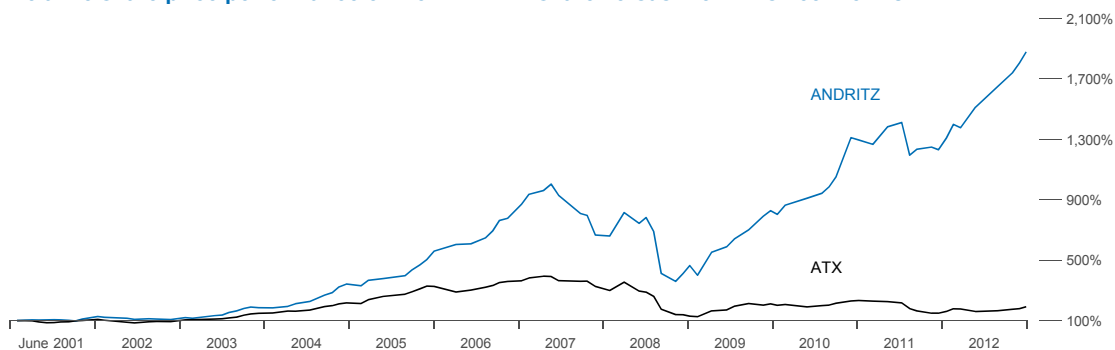
is one of the leading global suppliers of complete lines for the production and processing of stainless steel. These lines consist of equipment for cold rolling, heat treatment, surface finishing, strip coating and finishing, punching and deep drawing, and for regeneration of pickling acids. In addition, the business area supplies lines for the production and processing of carbon steel and non-ferrous metal strip, resistance welding equipment for the metalworking industry, as well as turnkey furnace systems for the steel, copper, and aluminum industries.

#### **ANDRITZ FEED & BIOFUEL**

supplies systems, equipment, and services for the industrial production of animal feed pellets (pet food, fish, and shrimp feed) and for biomass pellets (wood pelleting plants and pelleting of agricultural and industrial by-products, such as straw). The business area is one of the world market leaders in both fields.

# THE ANDRITZ SHARE

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



Key figures of the ANDRITZ share	Unit	2012	2011	2010	2009	2008
Earnings per share	EUR	2.36	2.25	1.74	0.95	1.37
Dividend per share	EUR	1.20 <sup>1)</sup>	1.10	0.85	0.50	0.55
Payout ratio	%	50.8	49.0	48.9	52.9	40.3
Equity attributable to shareholders per share	EUR	9.76	8.75	7.34	6.14	5.30
Highest closing price	EUR	50.00	37.75	34.46	20.97	21.77
Lowest closing price	EUR	32.83	27.41	19.75	8.75	7.98
Closing price at end of year	EUR	48.54	32.05	34.40	20.26	9.08
Market capitalization (as of end of period)	MEUR	5,048.2	3,333.2	3,577.1	2,107.0	944.3
Performance	%	+47.9	-7.6	+67.8	+111.0	-54.4
ATX weighting (as of end of period)	%	10.6128	9.2705	7.3211	4.3701	2.9209
Average daily number of shares traded <sup>2)</sup>	Share unit	345,754	568,138	461,546	614,058	977,276

1) Proposal to the Annual General Meeting. 2) Double count, as published by the Vienna Stock Exchange. Source: Vienna Stock Exchange. Note: On April 23, 2012, the ANDRITZ share was split in a ratio of 1:2; historical share price data and stock exchange related figures were adjusted accordingly.

### 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	104 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 2013

March 1, 2013	Results for the 2012 business year
March 22, 2013	Annual General Meeting
March 26, 2013	Ex-dividend
March 28, 2013	Dividend payment
May 6, 2013	Results for the first quarter of 2013
August 7, 2013	Results for the first half of 2013
November 6, 2013	Results for the first three quarters of 2013

The financial calendar with updates, as well as information on the ANDRITZ share, can be found on the Investor Relations page at the ANDRITZ web site: [www.andritz.com/share](http://www.andritz.com/share)

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# MANAGEMENT REPORT

## GENERAL ECONOMIC CONDITIONS

In 2012, the global economy was impacted by the continuing economic weakness and uncertainty. Although economic activities did stabilize in the larger economic regions in the course of the year, the leading economic indicators give no reason to expect a sustained upswing in the coming months.

In the USA, economic activity stagnated at a low level during the reporting period. Investments by the manufacturing sector and by industry were moderate, and the labor market also remained tense. As a result, private consumption, which makes the largest contribution to the American gross domestic product, remained at a low level. The US Federal Reserve thus decided to buy a monthly volume of 40 billion USD in mortgage-backed securities and maintain the low interest rate at least until mid-2015 in order to revive the economy.

In Europe, the economic development was similar, although there were widely varying regional differences. While the euro countries in Southern Europe were still confronted with a shrinking economy, slight growth was noted in some of Europe's core countries. However, the leading economic indicators also give reason to expect the economy here to remain at a low level in the coming months. In order to counteract the latent economic decline, the European Central Bank (ECB) lowered the key interest rate further during the reporting period and announced that it is purchasing an unlimited amount of bonds in order to stabilize or decrease the interest rate in suffering euro countries.

The emerging countries in Asia and South America were also impacted by an economic slowdown in 2012. The sovereign debt crisis in Europe and the moderate economic development in the USA had a negative effect on China's exports. Combined with the weakening in domestic consumption as a result of the restrictive monetary policy, this led to a significant economic downturn in 2012. Brazil and other large countries in the emerging regions also showed distinct signs of an economic slowdown.

Source: OECD

## BUSINESS DEVELOPMENT

### Notes

- All figures according to IFRS.
- Due to the utilization of automatic calculation programs, differences can arise in the addition of rounded totals and percentages.
- MEUR = million euros; TEUR = thousand euros
- In 2012, there was a minor shift of some products from the SEPARATION business area to the PULP & PAPER business area. Comparison figures for 2011 have been adjusted.

### Changes in consolidated companies/acquisitions

The following companies were not, or only partially, included in the ANDRITZ GROUP's consolidated financial statements for the 2011 business year:

- Hemi Controls Inc.: 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 segment
- ANDRITZ Asselin-Thibeau S.A.S., France: drylaid nonwovens systems, especially for applications in the textile and hygiene sectors

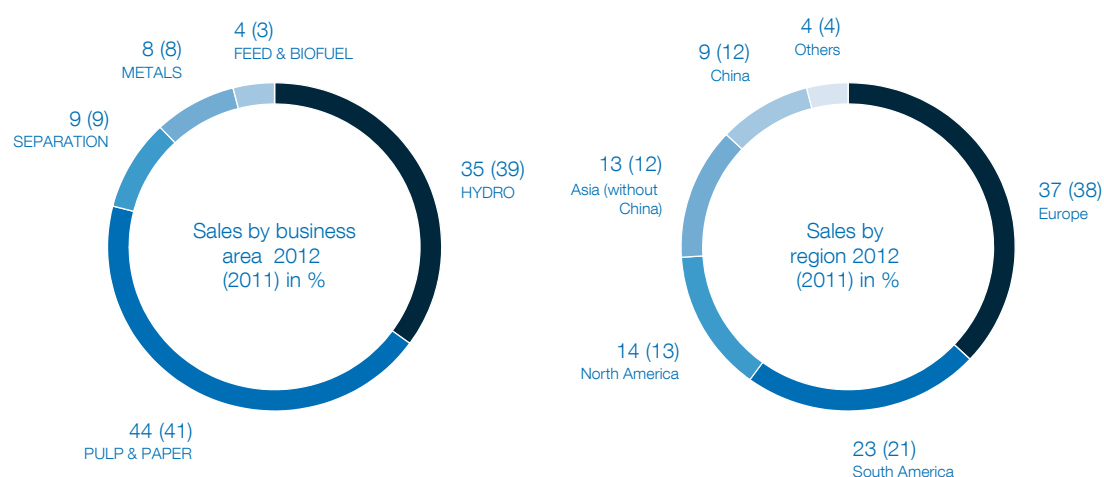
The following companies were included in the consolidated financial statements of the ANDRITZ GROUP for the first time in 2012:

- ANDRITZ (Wuxi) Nonwoven Technology Co. Ltd., China: drylaid nonwovens systems, especially for applications in the textile and hygiene sectors
- ANDRITZ Bricmont Inc.: furnace systems to the aluminum and steel industries
- ANDRITZ HYDRO Hammerfest: technologies for energy generation from tidal currents occurring in coastal waters
- Soutec AG, Schweiz: laser and rolled seam resistance welding systems for the metalworking industry
- ANDRITZ Environmental Solutions Inc.: flue gas cleaning systems for utilities and power generating industries
- Royal GMF-Gouda (Goudsche Machinefabriek): drying systems for the food and chemical industries, and the environmental sector of municipalities

The initial accounting for the companies/business areas acquired in 2012 was based on preliminary figures.

## Sales

Sales of the ANDRITZ GROUP amounted to 5,176.9 MEUR in 2012. All business areas, mainly PULP & PAPER, contributed to this increase of 12.6% compared to the previous year's reference figure (2011: 4,596.0 MEUR).



### Share of service sales of Group and business area sales in %

	2012	2011
ANDRITZ GROUP	26	27
HYDRO	24	24
PULP & PAPER	29	30
SEPARATION	30	34
METALS	6	10
FEED & BIOFUEL	45	50

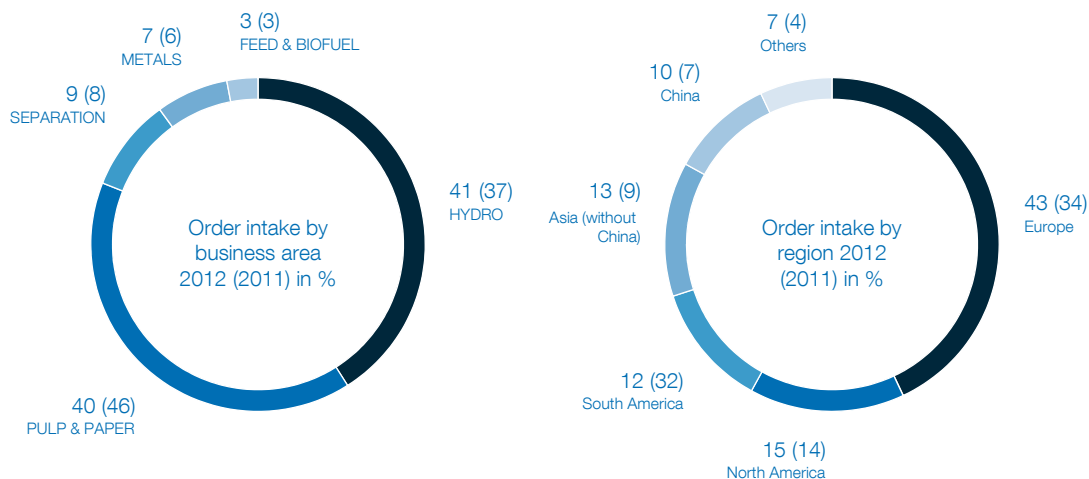
### Order intake

The order intake amounted to 4,924.4 MEUR and was thus 13.7% below the extraordinarily high level of the previous year (2011: 5,706.9 MEUR), which included a large order in the HYDRO business area and two large orders in the PULP & PAPER business area, accounting for a total of approximately 1,400 MEUR.

Due to these large orders, the order intake decreased in the HYDRO and PULP & PAPER business areas compared to 2011. The other business areas noted an increase of order intake.

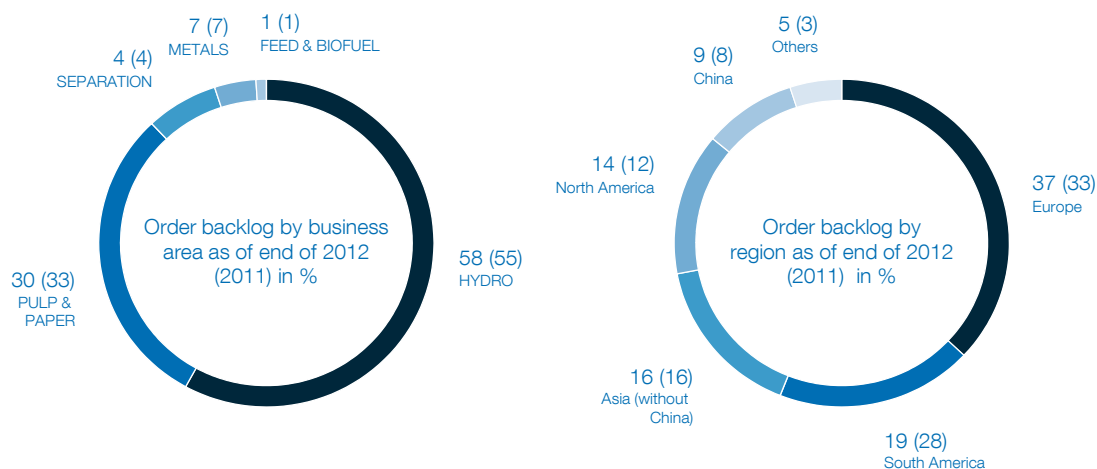
	2012 (MEUR)	2011 (MEUR)	+/- (%)
HYDRO	2,008.4	2,096.2	-4.2
PULP & PAPER	1,962.4	2,694.1	-27.2
SEPARATION	468.2	438.8	+6.7
METALS	324.2	318.6	+1.8
FEED & BIOFUEL	161.2	159.2	+1.3





### Order backlog

The order backlog as of December 31, 2012 amounted to 6,614.8 MEUR and was thus virtually unchanged compared to the reference figure of last year (-1.0% versus December 31, 2011: 6,683.1 MEUR). In the HYDRO and SEPARATION business areas, the order backlog rose; all other business areas noted a decline.



### Earnings

The EBITA amounted to 357.8 MEUR, thus exceeding the reference figure of last year by 7.9% (2011: 331.5 MEUR). The EBITA margin amounted to 6.9% (2011: 7.2%); this slight decline is mainly attributable to the project mix in the PULP & PAPER business area (higher portion of large projects compared to 2011) as well as cost overruns on some projects and expenses for business expansion in the emerging markets in the SEPARATION business area.

In 2012, goodwill impairment in the amount of 0.4 MEUR was recorded (2011: 1.0 MEUR). In addition, impairment charges in the amount of 0.5 MEUR were noted for intangible and tangible assets (2011: 1.5 MEUR).

The financial result amounted to -2.8 MEUR (2011: 9.0 MEUR); this significant decrease is mainly due to the write-down of some non-consolidated companies and expenses related to the issue of the bond 2012-2019 (interest rate swap, management fee of the syndicate members).

The tax rate, at 27.0%, declined compared to the previous year (2011: 28.1%).

The net income (excluding non-controlling interests) amounted to 243.6 MEUR (2011: 230.7 MEUR).

### Net worth position and capital structure, issue of a corporate bond

The total assets as of December 31, 2012 increased to 5,161.0 MEUR (December 31, 2011: 4,566.6 MEUR). This increase is attributable primarily to acquisitions and the issue of a corporate bond with a volume of 350 MEUR in July 2012. The equity ratio as of end of 2012 amounted to 20.0% (December 31, 2011: 20.6%).

Liquid funds (cash and cash equivalents plus marketable securities plus loans against borrowers' notes) amounted to 2,047.8 MEUR as of December 31, 2012 (December 31, 2011: 1,814.5 MEUR). The net liquidity (liquid funds plus fair value of interest rate swaps minus financial liabilities) amounted to 1,285.7 MEUR (December 31, 2011: 1,400.6 MEUR).

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

- Credit lines: 171.7 MEUR, thereof 61.5 MEUR utilized
- Surety lines: 5,068.1 MEUR, thereof 2,702.3 MEUR utilized

#### Assets

1,486.8 MEUR	1,855.9 MEUR	1,818.3 MEUR
Long-term assets: 29%	Short-term assets: 36%	Cash and cash equivalents and marketable securities: 35%

#### Shareholders' equity and liabilities

1,033.8 MEUR	790.6 MEUR	419.3 MEUR	2,917.3 MEUR
Shareholders' equity incl. minority interests: 20%	Financial liabilities: 15%	Other long-term liabilities: 8%	Other short-term liabilities: 57%

### Capex and cash flow

Investments in tangible and intangible assets amounted to 109.1 MEUR (2011: 77.0 MEUR) and focused mainly on workshop modernizations as well as the construction and/or purchase of office buildings.

The cash flow from operating activities, at 346.5 MEUR, was significantly below the previous year's reference figure (2011: 433.8 MEUR). This decrease was mainly due to project-related changes in the working capital.

### Further important key figures at a glance

	Unit	2012	2011	2010	2009	2008
Return on sales <sup>1)</sup>	%	6.5	6.8	6.9	4.6	6.1
EBITDA <sup>2)</sup>	MEUR	418.6	386.2	307.3	218.2	278.2
Earnings Before Interest and Taxes (EBIT)	MEUR	334.5	312.7	245.5	147.1	218.5
Earnings Before Taxes (EBT)	MEUR	331.6	321.7	247.9	149.6	210.5
Net income (including non-controlling interests)	MEUR	242.2	231.5	177.0	102.9	147.0
Free cash flow <sup>3)</sup>	MEUR	239.7	361.1	644.9	285.6	187.5
Free cash flow per share <sup>4)</sup>	EUR	2.3	3.5	6.2	2.7	1.8
Return on equity <sup>5)</sup>	%	32.1	34.3	31.2	22.5	36.5
Return on investment <sup>6)</sup>	%	6.5	6.8	6.1	4.4	7.1
Net debt <sup>7)</sup>	MEUR	-1,053.3	-1,198.4	-992.0	-505.3	-242.9
Net working capital <sup>8)</sup>	MEUR	-631.5	-639.2	-556.1	-104.3	22.7
Capital employed <sup>9)</sup>	MEUR	-36.2	-128.6	-86.0	285.9	406.8
Gearing <sup>10)</sup>	%	-101.9	-127.6	-124.9	-76.2	-42.1

1) EBIT (Earnings Before Interest and Taxes)/sales 2) Earnings Before Interest, Taxes, Depreciation, and Amortization 3) Cash flow from operating activities minus capital expenditure plus payments from the sale of intangible assets and property, plant and equipment 4) Free cash flow/total number of shares 5) EBT (Earnings Before Taxes)/total shareholders' equity 6) EBIT (Earnings Before Interest and Taxes)/total assets 7) Interest bearing liabilities including provisions for severance payments, pensions, and jubilee payments minus cash and cash equivalents, marketable securities and loans against borrowers' notes 8) Non-current receivables plus current assets (excluding marketable securities, cash and cash equivalents as well as loans against borrowers' notes) minus other non-current liabilities and current liabilities (excluding financial liabilities and provisions) 9) Net working capital plus intangible assets and property, plant and equipment 10) Net debt/total shareholders' equity

### Important acquisitions

In May 2012, ANDRITZ signed an agreement with Schuler-Beteiligungen GmbH to acquire its entire 38.5% stake in Schuler AG, a company listed on the German Stock Exchange and based in Göppingen; the purchase price per share is 20.00 euros in cash. In June, ANDRITZ acquired a further stake in Schuler AG shares amounting to 24.99%. On July 2, 2012, ANDRITZ published a voluntary public takeover offer for the remaining shareholders in accordance with Section 10, para. 1, in conjunction with Sections 29 and 34, of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz, WpÜG) to acquire the remaining shares, also offering the remaining Schuler AG shareholders 20.00 euros per share in cash. ANDRITZ was tendered 25.75% of the remaining shares under this takeover offer. The closing of the acquisition of Schuler Beteiligungen GmbH's shares as well as the takeover offer were contingent upon approval by the relevant anti-trust authorities. In February 2013, the takeover of the majority interest in Schuler AG has received full and unrestricted approval from the anti-trust authorities responsible. The closing took place with the assignment of the shares on February 14, 2013. At the copy deadline for this financial report on February 21, 2013, ANDRITZ owned more than 90% of the shares in Schuler AG. The first-time consolidation of Schuler in the ANDRITZ consolidated financial statements will take place from March 1, 2013. As the technological and global market leader in metal-forming, Schuler supplies machines, production lines, dies, process know-how, and services for the entire metal-working industry. With this acquisition, ANDRITZ is expanding its product and service portfolio in the METALS business area.

ANDRITZ increased its stake in ANDRITZ HYDRO Hammerfest from 33.3% to 59.4% during the reporting period. ANDRITZ HYDRO Hammerfest is a world market leader in technologies for energy generation from tidal currents occurring in coastal waters.

In addition, ANDRITZ acquired the following companies in 2012:

- Allied Environmental Solutions Inc., with headquarters in Columbia, Maryland, USA. ANDRITZ Environmental Solutions is a leading supplier of flue gas cleaning systems for utilities and various power generating industries (for example operators of fossil-fired power stations) in the USA. With this acquisition, the PULP & PAPER business area is strengthening its flue gas cleaning portfolio and has entered the US market.
- Royal GMF-Gouda (Goudsche Machinefabriek) with headquarters in Waddinxveen, Netherlands, including operations in Germany, France, China, Singapore, and the USA. ANDRITZ Gouda is one of the leading manufacturers of drying solutions for the food industry (for example for the production of baby food), the chemical industry, and the environmental sector of municipalities. The company complements and extends the range of products and services of the SEPARATION business area in the drying sector.
- Bricmont Inc., headquartered in Pittsburgh, Pennsylvania, USA, including certain assets in China and India. ANDRITZ Bricmont supplies furnace systems to the aluminum and steel industries and further complements the existing furnace product portfolio of the METALS business area.
- Soutec AG with headquarters in Neftenbach, Switzerland, including subsidiaries in China and the USA. ANDRITZ Soutec, part of the METALS business area, is a leading global supplier of laser and rolled seam resistance welding systems for the metalworking industry. These welding systems are used in particular to manufacture light components, for example car body parts.

## 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 practicably reasonable 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. In addition, the Chairman of the Supervisory Board receives a brief monthly report including the key financial figures with comments. 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, 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 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 enough candidates available in the short- and medium-term to fill any posts becoming vacant. New local development programs for special target groups (for example employees working in sales or management staff in the manufacturing department) were initiated and continued in many of the Group's companies. In developing the programs, one focus is on ensuring that these training courses can also be combined with globally organized personnel development programs. Several so-called "change projects" were conducted to optimize reorganization measures in individual divisions and business areas. The ANDRITZ GROUP tries to balance out variations in capacity utilization at Group level as best possible globally by allocating orders to the various sites around the world 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. Exchange rate risks resulting from the recognition of equity are not hedged.

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

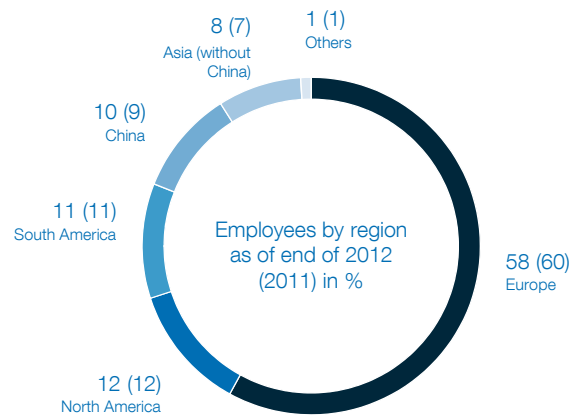
##### **Manufacturing**

Due to the extraordinarily high order backlog at the beginning of the year and the good order intake, 2012 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, Hungary, and Slovakia) and on modernization of existing locations in Central Europe and North America.

##### **Human resources**

At the end of 2012, the ANDRITZ GROUP had a total of 17,865 employees (+6.7% versus December 31, 2011: 16,750 employees). This increase is mainly due to the first-time consolidation of acquired companies.



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 a more attractive employer for engineers and offer them interesting career development prospects in the medium to long term, a group-wide career model for engineers known as the “Engineering Career Path” was continued and extended due to its positive results. Diversity has always played an important role in selecting new employees.

Safety-relevant measures were implemented once again in 2012 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. In addition, the company offered courses and events dealing with health-related topics for employees.

#### Environmental matters

In 2012, the ANDRITZ GROUP continued its efforts in the interests of environmental protection at the ANDRITZ locations. The main focus lay on saving heating energy by adapting heating systems to use new technology, reducing CO<sub>2</sub> emissions by continuously replacing older trucks with new vehicles using hybrid technology, and gradually introducing energy-saving and cost-efficient lighting for offices and manufacturing workshops. A project to generate solar energy is being prepared at the Graz location.

## RESEARCH AND DEVELOPMENT

In 2012, the ANDRITZ GROUP invested 78.2 MEUR in research and development activities (2011: 65.6 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:

Hydropower plant operators must not only keep an eye on the performance and cost efficiency of their equipment, but also on ecological standards. This is why ANDRITZ HYDRO develops technical solutions in close cooperation with its customers to combine maximum efficiency with maximum ecology. In order to investigate the impact of hydropower plants on fish, for example, extensive studies were conducted with customers and a new turbine design was developed with fewer blades and less clearance between the runner and housing to reduce injuries to and stress factors for fish.

The combination of ecology and efficiency is also the main objective in the development of an oil-free hub of a Kaplan turbine. Whereas conventional runners of Kaplan turbines are filled with hundreds of liters of oil that can escape if there is a leak, ANDRITZ has developed runners that operate with water instead of oil.

Another focus is the development of turbine coatings that provide protection against sand abrasion. Erosion damage results in reduced efficiency and higher maintenance and repair costs. Thanks to special abrasion test rigs and the long-lasting experience in hydropower plants, new coating processes have been developed that minimize efficiency losses and extend maintenance intervals.

ANDRITZ PULP & PAPER is supplying the technology for the pre-treatment of biomass for the Liberty Project, the first commercial cellulosic ethanol plant for second-generation biofuel, which is being installed by POET-DSM in the USA. The plant is to produce more than 75 million liters of cellulosic ethanol a year from corn crop residue.



It uses the two-stage steam explosion process developed by ANDRITZ to support the low-cost conversion of biomass into sugar for the production of ethanol. At its R&D facilities in Europe and the USA, ANDRITZ has spent eight years working on processes for second-generation ethanol production. These processes use wood waste, for example, or plant remains from crop farming that are not used as food. ANDRITZ development work is concentrating on the chemical pre-treatment of the biomass and production of sugars to be fermented to make ethanol and butanol. Wood handling and processing play a special role in biomass pre-treatment. Any foreign matter adhering to the cellulose could interfere with the production process and must be removed. Micro wood chips measuring between four and six millimeters that are virtually free of foreign matter represent a particularly promising development. These micro wood chips could in future be used for the low-cost production of most types of biofuel.

The importance of biomass for the worldwide energy mix is growing significantly. In order to achieve legislated emission targets, coal-fired power stations are co-firing more and more biomass (wood chips and pellets) with coal. However, the use of untreated biomass is somewhat limited in existing plants. This is why ANDRITZ is developing technologies and processes to enhance the raw material for energy generating industries. One of the most promising processes is torrefaction – a thermal process to increase the energy density of biomass. This improves the fuel properties of the CO<sub>2</sub>-neutral biomass, requiring less fossil fuel in power plants. By “parching” in a low-oxygen environment at relatively low temperatures, the biomass attains properties similar to coal. The energy content of torrefied biomass is 20% higher than that of white wood pellets.

ANDRITZ is currently testing this innovative process in two pilot plants. ANDRITZ SEPARATION has started up a plant together with the local authority of the city of Frohnleiten, Austria. The plant is based on the ACB process (Accelerated Carbonized Biomass), newly developed by ANDRITZ. Woody biomass, like wood chips or sawmill chips, is compacted and torrefied. In the future, other low-cost biomass raw and waste materials are also to be upgraded in turnkey torrefaction plants (with a minimum commercial annual capacity of around 50,000 tons each) to become particularly energy-rich fuel. Another torrefaction pilot plant was erected in Sonder Stenderup, Denmark. The goal at this plant is to test a large-scale concept with an annual production capacity of up to one million tons in future facilities.

Process optimization and recycling processes are the focus of green innovations by ANDRITZ METALS. With the newly developed ZEMAP process (Zero Effluent Mixed Acid Pickling), the nitrate load in the effluent produced in mixed acid pickling of stainless steel can be reduced to almost zero. ZEMAP is part of a process chain together with the Pyromars process also developed by ANDRITZ, which can recover the pickling acid and such substances as chrome and nickel. In the ZEMAP process, the rinsing water is neutralized and evaporated, and the concentrate can be re-used in the Pyromars plant. In this way, the process not only recovers valuable substances, but also cuts the costs for waste water treatment significantly.

Other projects focus on recycling sheet steel with the aid of new dezincifying processes and on the development of new burner designs to improve the thermal efficiency of heat treatment furnaces. The prototype of a burner to reduce the nitrogen oxides in high-temperature furnaces has also been tested successfully.

ANDRITZ FEED & BIOFUEL has started up BioMax, with an output of 12 tons per hour one of the world's largest pellet mills for biomass.

#### **Significant events after December 31, 2012**

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.

In February 2013, the takeover of the majority interest in Schuler AG has received full and unrestricted approval from the anti-trust authorities responsible. The closing took place with the assignment of the shares on February 14, 2013. At the copy deadline for this financial report on February 21, 2013, ANDRITZ owned more than 90% of the shares in Schuler AG. The first-time consolidation of Schuler in the ANDRITZ consolidated financial statements will take place from March 1, 2013. As the technological and global market leader in metalforming, Schuler supplies machines, production lines, dies, process know-how, and services for the entire metalworking industry. With this acquisition, ANDRITZ is expanding its product and service portfolio in the METALS business area.

In January 2013, ANDRITZ has acquired an 80% stake in Shanghai Shende Machinery Co. Ltd., China, a renowned supplier of technologies and systems for feed and biomass pelleting.

## OUTLOOK

Leading economic experts do not expect any significant change in economic development for 2013 in the most relevant regions of the world. Continued slow economic development is expected in the USA and also in Europe. The determining factors will continue to be the national debt crisis and the resulting budget consolidation measures, which will lead to a substantial cut in government spending. Emerging markets are also expected not to experience sustainable growth because their exports to the USA and to Europe will not recover sustainably due to the weak economy in these regions.

In view of these expected general economic conditions, moderate but stable development is anticipated compared to 2012 in the markets served by ANDRITZ.

In general, visibility with regard to order awards will be further shortened, particularly for large projects. All in all, however, satisfactory project activity can be expected in all business areas, with the award of several medium-sized and large orders in the two largest business areas, HYDRO and PULP & PAPER. With the exception of the METALS business area, where no sustained recovery can be expected either for 2013, there should be a solid development of investment activity also in the other business areas in 2013.

Based on these expectations, the good order backlog as of end of 2012, and the first-time consolidation of Schuler AG, the ANDRITZ GROUP expects a sales increase in 2013 compared to the previous year. The net income is also expected to rise compared to last year.

If, however, the global economy suffers another setback in 2013, 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.

## SHARES AND SHAREHOLDER STRUCTURE

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

The capital stock of ANDRITZ AG as of December 31, 2012 amounted to 104,000,000 EUR. As a result, the proportionate amount of the capital is 1.00 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, the ANDRITZ corporate bond 2008-2015 issued in February 2008, and the ANDRITZ corporate bond 2012-2019 issued in July 2012, 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 21, 2013


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 (Pumps)



Wolfgang Semper  
HYDRO

**Disclaimer:**

Certain statements contained in the annual financial report 2012 and in the annual report 2012 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 2012 and the annual report 2012 contain assumptions and forecasts which were based on the information available up to the copy deadline on February 21, 2013. If the premises for these assumptions and forecasts do not occur, or risks indicated in the chapter "corporate risks" and in the management report in the annual financial report 2012 do arise, actual results may vary from the forecasts made in the annual financial report 2012 and the annual report 2012. 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 Commercial 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.

### **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; 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; 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 the 2013 business year
- 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 the 2015 business year
- 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 the 2013 business year
- 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 the 2016 business year
- 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 the 2014 business year
- 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 the 2014 business year
- Supervisory Board mandates in other listed companies in Austria and abroad: none

#### 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

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 to deal with the annual and consolidated financial statements for 2011, prepare the review of the annual and consolidated financial statements for 2012 and of the proposal for appropriation of profits, additionally to deal with issues concerning the auditor, and implementation of the internal control and risk management systems in the ANDRITZ GROUP. The members of the audit committee were Hellwig Torggler (Chairman), Klaus Ritter (Deputy Chairman), Christian Nowotny, and Andreas Martiner.

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. The members of the nomination and remuneration committee were Hellwig Torggler (Chairman), Peter Mitterbauer (Deputy Chairman), and Klaus Ritter.

The ANDRITZ AG Supervisory Board held four regular meetings in 2012. 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 increasingly tries to motivate female high-school graduates to take an engineering degree. The ANDRITZ GROUP can only achieve a substantial increase in its proportion of female employees if there are more female engineering graduates.

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. Also 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. During the reporting period, ANDRITZ again took part regularly in various events and recruiting days specifically for women, and attended vocational orientation days for girls and young women. In addition, an internal workshop was organized for women to assess how effective the development measures implemented have been so far and to plan improvements for the future. Furthermore, special training modules are currently in preparation to enhance women's careers. In its efforts to promote female employees, ANDRITZ will refrain from any measures that would discriminate against male employees.

### Disclosure of information on the remunerations of the Executive Board and Supervisory Board (Article 243b, para. 2 UGB, N3)

#### Executive Board remunerations

- An amount of 14,321.068 EUR (2011: 11,053.699 EUR) was recognized for the 2012 business year as expenses for the Executive Board:

(in EUR)	Short-term benefits	Benefits after termination of the employment contract	Share-based remunerations
Wolfgang Leitner (President and CEO)	4,913,250	175,113	294,778
Karl Hornhofer	2,004,847	34,125	235,822
Humbert Köfler	1,959,286	47,980	235,822
Friedrich Papst	2,338,794	93,932	235,822
Wolfgang Semper	1,530,597	39,210	181,689

This includes all expenses attributable to the members of the Executive Board (including social security contributions) in the 2012 business year.

- 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. In the meantime, this ruling has been implemented for all members of the Executive Board except the CEO, whose current contract expires



on June 28, 2013. 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; after this, annual adjustments can be made to take account of the development in wages and salaries and of ANDRITZ's economic status.
- 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 2012. 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.

### Supervisory Board remunerations

- The Supervisory Board remunerations (including attendance fees) in 2012 amounted to 187,500 EUR (2011: 110,000 EUR) and were divided between the individual Supervisory Board members as follows:

<i>(in EUR)</i>	<b>Remuneration (including attendance fees)</b>
Hellwig Torggler (Chairman of the Supervisory Board)	44,500
Klaus Ritter (Deputy Chairman of the Supervisory Board)	28,667
Peter Mitterbauer	26,000
Christian Nowotny	28,500
Fritz Oberlerchner	26,000
Kurt Stiasny	33,833

No Supervisory Board remuneration was paid to the Supervisory Board members delegated by the employee representative organizations.

- 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 2012.

Graz, February 2013

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 management report):

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

#### **Effects of the financial and economic crisis**

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

The ANDRITZ GROUP's position in terms of liquidity is very good; the Group has high liquidity reserves and secured access to liquidity. Cash is mainly invested in traditionally 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. 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.

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 management 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 guarantee that this insurance can fully cover potential losses, that the insurers will be liable to pay damages, nor 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. 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 increase in product piracy and industrial espionage facilitated by the digital era and the accompanying increase in intellectual property piracy can 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 will be 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.

In February 2013, the takeover of the majority interest in AG has received full and unrestricted approval from the anti-trust authorities responsible. The closing took place with the assignment of the shares on February 14, 2013. The first-time consolidation of Schuler in the ANDRITZ consolidated financial statements will take place from March 1, 2013. As Schuler derives approximately three-quarters of its sales in the automotive industry, which is generally exposed to severe cyclical swings, this acquisition may possibly also have an adverse impact on the development of sales and earnings of the ANDRITZ GROUP.

#### 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 and project 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. A negative decision for ANDRITZ in one or several of these legal disputes may have an adverse effect on the earnings and liquid position of the Group.

ANDRITZ Inc., a subsidiary of the ANDRITZ GROUP, is one of many defendants in 55 asbestos cases (status as of December 31, 2012) in the USA. In aggregate, the cases involve 444 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 Business 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 is missed by a wide margin, deadlines are clearly exceeded, or the customer does not accept the plant on other reasons stipulated in the contract, the customer has the right to terminate the agreement and return the subject of the contract to ANDRITZ 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 risks relating to geology, construction, and installation. 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 and other 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 and the liquidity 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, medium-term planning, 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 and business development.

The Presidium of the Supervisory Board acted on behalf of the company in matters concerning the Executive Board. None of the members of the Supervisory Board was absent from more than half of the meetings.

Specific topics were discussed in two meetings in depth by the audit committee and subsequently reported on to the Supervisory Board. All members of the audit committee attended the committee meetings.

With regard to the financial statements for 2011, the audit committee called in the annual auditor to attend its meeting on February 29, 2012 in order to review the financial statements, consolidated financial statements, the management report, and the Executive Board's proposal for appropriation of profits. In addition, a statement was drawn up on the auditor designated for the 2012 business year, his legal relationship with the ANDRITZ GROUP and the members of its Boards was verified, the auditing fees were negotiated, and a recommendation for the auditor appointment was made. As further items on the agenda, the auditor reported on the function of the risk management system in the company. In addition, a report on the Internal Auditing department was issued and explanations on the compliance report were provided.

At the meeting of the audit committee held on December 6, 2012, the Supervisory Board – with the auditor also present – discussed organization, scheduling, and auditing of the 2012 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 22, 2012 re-elected Christian Novotny 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 2016 business year.

At the Supervisory Board meeting following the Annual General Meeting on March 22, 2012, and held on the same day, Hellwig Torggler was elected as Chairman and Klaus Ritter as Deputy Chairman of the Supervisory Board.

The financial statements and management report of ANDRITZ AG and the consolidated financial statements for 2012 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. 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 2013

Hellwig Torggler  
Chairman of the Supervisory Board

## STATEMENT BY THE EXECUTIVE BOARD


### Statement by the Executive Board, pursuant to Article 82 para. 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 management 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 management 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 2013


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 (Pumps)

  
 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, 2012 to December 31, 2012. These financial statements comprise the balance sheet as of December 31, 2012, the income statement for the fiscal year ended December 31, 2012, 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, 2012 and of its financial performance for the fiscal year from January 1, 2012 to December 31, 2012 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 21, 2013

**Deloitte.**  
Deloitte Audit Wirtschaftsprüfungs GmbH

Manfred GERITZER m.p.

Nikolaus MÜLLER m.p.

(Austrian) Certified Public Accountants

This English translation of the audit report was prepared for the client's convenience only. It is no legally relevant translation of the German audit report. Publishing or transmitting of the financial statements including our audit opinion may only take place in conformity with the audit version above. Section 281 para. 2 UGB (Austrian Commercial Code) has to be applied for differing forms.

# Consolidated financial statements 2012 of the ANDRITZ GROUP

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# 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, 2012 to December 31, 2012. These consolidated financial statements comprise the consolidated statement of financial position as of December 31, 2012, 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, 2012, 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, 2012 and of its financial performance and its cash flows for the fiscal year from January 1, 2012 to December 31, 2012 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 21, 2013

**Deloitte.**  
Deloitte Audit Wirtschaftsprüfungs GmbH

Manfred GERITZER m.p.

Nikolaus MÜLLER m.p.

(Austrian) Certified Public Accountants

This English translation of the audit report was prepared for the client's convenience only. It is not a legally relevant translation of the German audit report. Publishing or transmitting of the financial statements including our audit opinion may only take place in conformity with the audit version above. Section 281 para. 2 UGB (Austrian Commercial Code) has to be applied for differing forms.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**As of December 31, 2012**

<i>(in TEUR)</i>	<i>Notes</i>	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>			
Intangible assets	1.	101,110	77,238
Goodwill	2.	317,775	284,713
Property, plant and equipment	1.	494,187	433,369
Shares in associated companies	3.	555	13,428
Other investments	4.	355,288	235,890
Trade accounts receivable	7.	21,385	14,350
Other non-current receivables and other assets	9.	74,851	41,130
Deferred tax assets	20.	121,579	107,180
<b>Non-current assets</b>		<b>1,486,730</b>	<b>1,207,298</b>
Inventories	5.	405,317	411,743
Advance payments made	6.	181,196	141,291
Trade accounts receivable	7.	606,548	581,367
Cost and earnings of projects under construction in excess of billings	8.	320,718	290,490
Other current receivables	9.	342,122	319,366
Marketable securities		325,486	445,159
Cash and cash equivalents		1,492,848	1,169,888
<b>Current assets</b>		<b>3,674,235</b>	<b>3,359,304</b>
<b>TOTAL ASSETS</b>		<b>5,160,965</b>	<b>4,566,602</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Share capital		104,000	104,000
Capital reserves		36,476	36,476
Retained earnings	10.	867,017	756,193
<b>Equity attributable to shareholders of the parent</b>		<b>1,007,493</b>	<b>896,669</b>
Non-controlling interests		26,302	42,204
<b>Total shareholders' equity</b>		<b>1,033,795</b>	<b>938,873</b>
Bonds - non-current	13.	525,099	357,706
Bank loans and other financial liabilities - non-current	13.	9,667	11,422
Obligations under finance leases - non-current	13.	16,061	7,696
Provisions - non-current	11./ 12.	312,226	301,496
Other liabilities - non-current	14.	13,182	14,135
Deferred tax liabilities	20.	93,912	85,155
<b>Non-current liabilities</b>		<b>970,147</b>	<b>777,610</b>
Bonds - current	13.	186,654	0
Bank loans and other financial liabilities - current	13.	51,797	58,713
Obligations under finance leases - current	13.	1,364	757
Trade accounts payable		420,369	438,596
Billings in excess of cost and earnings of projects under construction	8.	1,090,860	1,068,292
Advance payments received		63,759	85,410
Provisions - current	11.	413,221	365,809
Liabilities for current taxes		50,740	46,006
Other liabilities - current	14.	878,259	786,536
<b>Current liabilities</b>		<b>3,157,023</b>	<b>2,850,119</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>5,160,965</b>	<b>4,566,602</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, 2012

<i>(in TEUR)</i>	<i>Notes</i>	<b>2012</b>	<b>2011</b>
<b>Sales</b>	<b>15.</b>	<b>5,176,880</b>	<b>4,595,993</b>
Changes in inventories of finished goods and work in progress		-5,206	56,299
Capitalized cost of self-constructed assets		1,965	1,003
		<b>5,173,639</b>	<b>4,653,295</b>
Other operating income	16.	79,606	84,763
Cost of materials		-3,043,661	-2,807,121
Personnel expenses	17.	-1,113,851	-995,402
Other operating expenses	18.	-677,165	-549,383
<b>Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)</b>		<b>418,568</b>	<b>386,152</b>
Depreciation, amortization and impairment of intangible assets and property, plant and equipment	1.	-83,697	-72,456
Impairment of goodwill	2.	-397	-1,000
<b>Earnings Before Interest and Taxes (EBIT)</b>		<b>334,474</b>	<b>312,696</b>
Income/expense from associated companies		-1,392	-1,747
Interest result		3,816	10,957
Other financial result		-5,252	-161
<b>Financial result</b>	<b>19.</b>	<b>-2,828</b>	<b>9,049</b>
<b>Earnings Before Taxes (EBT)</b>		<b>331,646</b>	<b>321,745</b>
Income taxes	20.	-89,442	-90,277
<b>NET INCOME</b>		<b>242,204</b>	<b>231,468</b>
Thereof attributable to:			
Shareholders of the parent		243,637	230,658
Non-controlling interests		-1,433	810
Weighted average number of no-par value shares		103,242,216	102,697,466
Earnings per no-par value share (in EUR)	21.	2.36	2.25
Effect of potential dilution of share options		863,391	768,642
Weighted average number of no-par value shares and share options		104,105,607	103,466,108
Diluted earnings per no-par value share (in EUR)	21.	2.34	2.23
Proposed or paid dividend per no-par value share (in EUR)	10.	1.20	1.10

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, 2012

<i>(in TEUR)</i>	<i>Notes</i>	<b>2012</b>	<b>2011</b>
<b>Net income</b>		<b>242,204</b>	<b>231,468</b>
Currency translation adjustments		-12,128	-3,995
Actuarial gains/losses		-21,633	-21,794
Taxes on actuarial gains/losses		5,446	4,681
Changes in IAS 39 reserve	K)	678	-1,931
Taxes on changes to IAS 39 reserve	K)	-169	479
<b>Other comprehensive income for the year</b>		<b>-27,806</b>	<b>-22,560</b>
<b>Total comprehensive income for the year</b>		<b>214,398</b>	<b>208,908</b>
Thereof attributable to:			
Shareholders of the parent		218,482	210,181
Non-controlling interests		-4,084	-1,273

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, 2012

(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, 2011</b>		<b>104,000</b>	36,476	<b>613,575</b>	1,648	<b>-1,693</b>	2,611	<b>756,617</b>	37,763	<b>794,380</b>
Total comprehensive income for the year		0	0	230,658	-1,459	-17,058	-1,960	210,181	-1,273	208,908
Dividends	10.	0	0	-86,857	0	0	0	-86,857	-3,063	-89,920
Capital increase		0	0	0	0	0	0	0	8,777	8,777
Changes in own shares		0	0	13,534	0	0	0	13,534	0	13,534
Changes concerning share option programs	10.	0	0	2,539	0	0	0	2,539	0	2,539
Other changes		0	0	655	0	0	0	655	0	655
<b>Status as of December 31, 2011</b>		<b>104,000</b>	36,476	<b>774,104</b>	189	<b>-18,751</b>	651	<b>896,669</b>	42,204	<b>938,873</b>
<b>Status as of January 1, 2012</b>		<b>104,000</b>	36,476	<b>774,104</b>	189	<b>-18,751</b>	651	<b>896,669</b>	42,204	<b>938,873</b>
Total comprehensive income for the year		0	0	243,637	509	-16,187	-9,477	218,482	-4,084	214,398
Dividends	10.	0	0	-113,551	0	0	0	-113,551	-3,936	-117,487
Changes from acquisitions		0	0	-504	-3	-450	1,416	459	-7,882	-7,423
Changes in own shares		0	0	1,853	0	0	0	1,853	0	1,853
Changes concerning share option programs	10.	0	0	5,175	0	0	0	5,175	0	5,175
Other changes		0	0	-1,594	0	0	0	-1,594	0	-1,594
<b>Status as of December 31, 2012</b>		<b>104,000</b>	36,476	<b>909,120</b>	695	<b>-35,388</b>	-7,410	<b>1,007,493</b>	26,302	<b>1,033,795</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, 2012

<i>(in TEUR)</i>	<i>Notes</i>	<b>2012</b>	<b>2011</b>
<b>Earnings Before Taxes (EBT)</b>		<b>331,646</b>	<b>321,745</b>
Interest result	19.	-3,816	-10,957
Depreciation, amortization, write-ups and impairment of fixed assets		84,094	73,456
Expense/income from associated companies	19.	1,392	1,747
Changes in non-current provisions		-28,519	11,553
Losses/gains from the disposal of fixed and financial assets		1,118	-727
Other non-cash expenses/income		-1,610	2,991
Taxes paid		-97,906	-102,345
Interest received		38,206	29,025
Interest paid		-17,797	-16,540
<b>Gross cash flow</b>		<b>306,808</b>	<b>309,948</b>
Changes in inventories		19,931	-53,548
Changes in advance payments made		-37,826	-35,642
Changes in receivables		-34,562	-99,225
Changes in current provisions		47,069	721
Changes in advance payments received		-31,701	-15,747
Changes in liabilities		76,759	327,290
<b>Cash flow from operating activities</b>		<b>346,478</b>	<b>433,797</b>
Payments received for asset disposals (including financial assets)		4,302	3,927
Payments made for investments in property, plant and equipment and intangible assets		-109,112	-76,974
Payments made for investments in non-current financial assets		-199,197	-197,837
Payments made for acquisition of subsidiaries	//	-52,893	-65,195
Other changes in consolidation range		3,894	2,518
Payments made for current investments of cash and cash equivalents		128,715	-49,410
<b>Cash flow from investing activities</b>		<b>-224,291</b>	<b>-382,971</b>
Changes in interest-bearing borrowings		338,618	-10,581
Dividends paid by ANDRITZ AG	10.	-113,551	-86,857
Other changes in non-controlling interests		-15,937	6,282
Payments concerning own shares		1,853	13,534
<b>Cash flow from financing activities</b>		<b>210,983</b>	<b>-77,622</b>
<b>Changes in cash and cash equivalents</b>		<b>333,170</b>	<b>-26,796</b>
Change in cash and cash equivalents resulting from exchange rate fluctuation		-10,210	8,738
<b>Cash and cash equivalents at the beginning of the period</b>		<b>1,169,888</b>	<b>1,187,946</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>1,492,848</b>	<b>1,169,888</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, 2012**

## **A) GENERAL**

ANDRITZ AG 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" or "ANDRITZ") 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 17,472 in 2012 and 16,280 in 2011. 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. As a result, totals may differ from the amounts shown. If not stated otherwise, amounts are given in thousands of euros.

## **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 International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and endorsed by the European Union, application of which is mandatory for 2012. All interpretations published by the International Financial Reporting Interpretations Committee (IFRIC), application of which is also mandatory for 2012, have been applied. The consolidated financial statements meet the requirements of Section 245a UGB (Austrian Commercial Code) on exempting consolidated financial statements according to internationally recognized accounting standards.

The International Accounting Standard Board (IASB) is working on numerous important projects that will only have an effect as from the 2013 business year. In 2012 however, the only aspect to be considered is a mandatory amendment to standards.

The IASB has published an amendment to IFRS 7 that leads to additional disclosures being required in the event of financial assets being transferred. The amendment contains different regulations for

- transferred assets that are not deleted entirely from the accounts (e.g. in typical security repurchase contracts (repos) at a fixed price or when transferring assets to securitization companies that are consolidated by the transferring company), and
- transferred assets that are deleted entirely from the accounts (e.g. factoring of trade accounts receivable with transfer of all major opportunities and risks).

This amendment does not require any additional disclosures by the ANDRITZ GROUP.

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

<i>Standard/Interpretation</i>	<b>Title</b>	<b>Effective for annual financial statements for periods beginning on or after</b>	<b>Endorsement</b>
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income	January 1, 2013	July 6, 2012
IAS 19 (as revised in 2011)	Employee Benefits	January 1, 2013	July 6, 2012
Amendments to IAS 12	Deferred tax: recovery of underlying assets	January 1, 2013	December 29, 2012
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities	January 1, 2013	December 29, 2012
IFRS 13	Fair Value Measurement	January 1, 2013	December 29, 2012
IFRS 10	Consolidated Financial Statements	January 1, 2014	December 29, 2012
IFRS 11	Joint Arrangements	January 1, 2014	December 29, 2012
IFRS 12	Disclosures of Interests in Other Entities	January 1, 2014	December 29, 2012
IAS 27 (as revised in 2011)	Separate Financial Statements	January 1, 2014	December 29, 2012
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures	January 1, 2014	December 29, 2012
IAS 32 (as revised in 2011)	Effective for annual financial statements for periods beginning on or after	January 1, 2014	December 29, 2012
IFRS 9	Financial Instruments	January 1, 2015	pending

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 basis for the consolidated financial statements of the Group was provided by the separate financial statements of all the fully consolidated entities, which were prepared by applying uniform, Group standards and IFRS standards.

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 (see note "Q) List of subsidiaries"). 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 comparable transactions and other events in similar circumstances.



The scope of consolidated financial statements changed as follows during the business year:

	2012		2011	
	Full consolidation	Equity method	Full consolidation	Equity method
<b>Balance as of January 1</b>	<b>108</b>	<b>7</b>	<b>104</b>	<b>13</b>
Acquisition of companies	5	0	9	2
Changes in consolidation type				
Additions	7	0	5	1
Disposals	-1	-3	-1	-9
Reorganization	-2	0	-9	0
<b>Balance as of December 31</b>	<b>117</b>	<b>4</b>	<b>108</b>	<b>7</b>

The inclusion of 50 (2011: 37) subsidiaries has been waived as these figures are immaterial to the financial position, financial performance, and cash flows. They were recognized as shares in non-consolidated companies under "Other Investments" at amortized cost.

Furthermore, the equity method has not been applied for 4 (2011: 6) associated companies as these figures are immaterial to the financial position, financial performance, and cash flows. They were recognized as shares in non-consolidated companies under "Other Investments" at amortized cost.

The non-inclusion of non-consolidated entities in the consolidated financial statements has no significant impact individually and collectively on the Group's financial position, financial performance, and cash flows.

## C) ACQUISITIONS

ANDRITZ increased its stake in Hammerfest Strøm AS from 33.3% to 59.4% in January 2012. The company, operating under the name of ANDRITZ HYDRO Hammerfest, is a world market leader in technologies for energy generation from tidal currents occurring in coastal waters.

At the end of March 2012, ANDRITZ acquired 100% of Bricmont Inc., a company headquartered in Pittsburgh, Pennsylvania, USA, and certain of its assets in China and India. ANDRITZ Bricmont supplies furnace systems to the aluminum and steel industries and further complements the existing furnace product portfolio of the ANDRITZ METALS business area, which is one of the leading global suppliers of complete lines for the production and processing of coldrolled stainless steel, carbon steel, and non-ferrous metals. The METALS business area also provides turnkey furnace systems to the steel and copper industries. With the acquisition of Bricmont, ANDRITZ is thus further enlarging its product offerings in furnaces and also strengthening its presence in North America, China, and India.

In May 2012, ANDRITZ signed an agreement with Schuler-Beteiligungen GmbH to acquire its entire 38.5% stake in Schuler AG, a company listed on the German Stock Exchange and based in Göppingen; the purchase price per share is 20.00 euros in cash. In June, ANDRITZ acquired a further stake in Schuler AG shares amounting to 24.99%. On July 2, 2012, ANDRITZ published a voluntary public takeover offer for the remaining shareholders in accordance with Section 10, para. 1, in conjunction with Sections 29 and 34, of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz, WpÜG) to acquire the remaining shares, also offering the remaining Schuler AG shareholders 20.00 euros per share in cash. ANDRITZ was tendered 25.75% of the remaining shares under this takeover offer. The closing of the acquisition of Schuler Beteiligungen GmbH's shares as well as the takeover offer were contingent upon approval by the relevant anti-trust authorities. In February 2013, the takeover of the majority interest in Schuler AG has received full and unrestricted approval from the anti-trust authorities responsible. The closing took place with the assignment of the shares on February 14, 2013. At the copy deadline for this financial report on February 21, 2013, ANDRITZ owned more than 90% of the shares in Schuler AG. The first-time consolidation of Schuler in the ANDRITZ consolidated financial statements will take place from March 1, 2013. As the technological and global market leader in metalforming, Schuler supplies machines, production lines, dies, process know-how, and services for the entire metalworking industry. With this acquisition, ANDRITZ is expanding its product and service portfolio in the METALS business area.

ANDRITZ acquired 100% of Asselin-Thibeau, Wuxi, China, an affiliate of the French NSC Group in June 2012. 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.

At the end of July 2012, ANDRITZ acquired 100% of Soutec AG with headquarters in Neftenbach, Switzerland, including its affiliates in China and the USA. ANDRITZ Soutec is a leading global supplier of laser and rolled seam resistance welding systems for the metalworking industry. These welding systems are used in particular to manufacture light components – for example, car body parts (tailored welded blanks), fuel tanks, or exhaust components for various industries. Soutec is part of the METALS business area.

In October 2012, ANDRITZ acquired 100% of Allied Environmental Solutions, Inc. (AES), with headquarters in Columbia, Maryland, USA. The company has around 40 employees and generates annual sales of approximately 30 MEUR. In the USA, AES – now ANDRITZ Environmental Solutions – is a leading supplier of air quality control systems for utilities and various power generating industries (e.g. fossil-fired power stations). With this acquisition, ANDRITZ Energy & Environment (AE&E) – a part of the PULP & PAPER business area – is strengthening its flue gas cleaning portfolio and has entered the US market.

In December 2012, ANDRITZ acquired 100% Royal GMF-Gouda (Goudsche Machinefabriek), with headquarters in Waddinxveen, Netherlands, including its operations in Germany, France, China, Singapore, Indonesia, and the USA. The company has around 140 employees in total and generates annual sales of approximately 40 MEUR. Royal GMF-Gouda is one of the leading manufacturers of drying solutions, mainly drum dryers and paddle dryers, for the food industry (e.g. baby food), the chemical industry, and the municipal sector of the environmental industry. The company complements and extends the range of products and services of the ANDRITZ SEPARATION business area in the drying sector.

Since their acquisition, these companies have contributed 40,750 TEUR to the ANDRITZ GROUP's sales and -6,784 TEUR to the ANDRITZ GROUP's EBIT. If the businesses had been acquired at the beginning of 2012, the Group's Sales would have been 5,256,220 TEUR and the Group's EBIT would have increased to 335,346 TEUR.

The aggregated purchase price of the business combinations effected in 2012 amounted to 79,468 TEUR, while direct costs of acquisition amounted to 634 TEUR.

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	18	47,158	47,176
Property, plant and equipment	17,668	0	17,668
Inventories	17,651	0	17,651
Trade and other receivables	40,734	0	40,734
Liabilities	-69,782	-14,348	-84,130
<b>Non-interest bearing net assets</b>	<b>6,289</b>	<b>32,810</b>	<b>39,099</b>
Cash and cash equivalents	18,447	0	18,447
Financial assets	4,021	0	4,021
Financial liabilities	-12,460	0	-12,460
Goodwill	0	33,621	33,621
Non-controlling interests	-3,260	0	-3,260
<b>Net assets</b>	<b>13,037</b>	<b>66,431</b>	<b>79,468</b>

The initial accounting for the businesses acquired in 2012 is based on preliminary figures as transition of the businesses' reporting according to IFRS has not yet been finalized.

## **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.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Whenever the carrying value 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.

#### 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.

#### 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 2012, 78,182 TEUR and in 2011, 65,641 TEUR were recognized as expenses.

#### b) Business combinations

Business combinations are accounted for by applying the purchase method, whereby the purchase price is offset against the proportional share in the acquired company's net assets. In doing so, the values at the acquisition date that corresponds to the date at which control of the acquired company was attained are used as a basis. The acquiree's identifiable assets, liabilities and contingent liabilities are generally recognized at their fair values irrespective of the extent attributable to non-controlling interests.

The application of the acquisition method requires certain estimates and assumptions to be made, especially concerning the fair values of the acquired intangible assets, property, plant and equipment and the liabilities assumed at the acquisition date, and the useful lives of the acquired intangible assets, property, plant and equipment.

Non-controlling interests can be measured either at cost (partial goodwill method) or at fair value (full goodwill method). The choice of method can be made on a case-by-case basis. The partial goodwill method is generally used within the ANDRITZ GROUP.

In step acquisitions, the fair values of the acquired entity's assets and liabilities are measured in accordance with IFRS 3 (Business Combinations) at the date on which control is obtained. Any resulting adjustments to the fair value of the existing interest are recognized in profit or loss. The carrying amount of the assets and liabilities already recognized in the statement of financial position is then adjusted accordingly.

#### c) Goodwill

For business combinations and goodwill, IFRS 3 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. Following a review of the amounts stated, the resulting value from the comparison of cost and fair value of the net assets of the acquiree's negative goodwill is recognized immediately through profit and loss in the income statement.

Any goodwill arising from business combinations is not amortized. However, it 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 value 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 representing 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 9.24% and 13.12% 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).

#### d) 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
Technical equipment and machinery	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.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Whenever the carrying value 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.

#### **e) Leases**

A lease is an agreement whereby the lessor assigns to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. Leases are classified as either finance or operating leases. Leasing transactions that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee are classified as finance leases. All other leasing agreements are classified as operating leases. Where ANDRITZ is the lessee in a finance lease, the leased asset is capitalized at the lower of the fair value or present value of the minimum lease payments at the beginning of the lease term and recognized simultaneously under financial liabilities. The leased asset is depreciated by the straight-line method over the expected useful life or, where shorter, over the term of the relevant lease. Where the Group is the lessee in an operating lease, the lease payments are expensed. The leased asset remains on the balance sheet of the lessor under property, plant and equipment.

#### **f) Shares in associated companies**

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 values 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.

#### **g) Other investments**

These non-current assets consist primarily of non-current securities, loans against borrowers' notes, shares in non-consolidated companies and other shares.

Non-current securities and loans against borrowers' notes 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 charged as other comprehensive income directly in equity until the security is disposed of or is determined to be impaired. At that time, the cumulative change 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. This affects other shares and shares in non-consolidated companies.

Financial assets classified as loans and receivables are measured at amortized costs using the effective interest method less any impairment losses.

In May 2012, ANDRITZ signed an agreement with Schuler-Beteiligungen GmbH to acquire its entire 38.5% stake in Schuler AG, a company listed on the German Stock Exchange and based in Göppingen. In June, ANDRITZ acquired a further stake in Schuler AG shares amounting to just under 25%. On July 2, 2012, ANDRITZ published a voluntary public takeover offer for the remaining shareholders in accordance with Section 10, para. 1, in

conjunction with Sections 29 and 34 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz, WpÜG) to acquire the remaining shares. ANDRITZ was tendered 25.75% of the remaining shares under this takeover offer. Closing of the acquisition of Schuler Beteiligungen GmbH's shares and the takeover offer were contingent upon approval by the relevant anti-trust authorities.

As closing of the acquisition is subject to approval by the anti-trust authorities and ANDRITZ has neither participation rights in the Supervisory Board nor any contractual right as a minority shareholder, it exercises no significant influence on Schuler AG. Consequently, the Group does not include the shares in Schuler AG in the consolidated financial statements using the equity method, but shows it accordingly in other shares under other investments.

#### **h) Inventories**

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").

#### **i) Trade accounts receivable**

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

#### **j) 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 that 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.

#### **k) 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 charged as other comprehensive income 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.

#### **l) 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.

#### **m) Share capital**

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

On the basis of the Resolution of the Annual General Meeting on March 22, 2012, the ANDRITZ share was split in a ratio of 1:2 as of April 23, 2012; as a result, the total number of ANDRITZ shares increased from 52 million to 104 million. All disclosures were adjusted accordingly.

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

Based on authorizations of the Annual General Meeting and with approval from the Supervisory Board, the Executive Board adopted share buy-back and share resale programs for buying up to 10,400,000 own shares between April 6, 2011 and September 30, 2013.

In 2012, no own shares were bought back. 69,600 own shares were resold at a price of 17.72 EUR per share to eligible executives under the management share option plan and 15,540 own shares were transferred to employees of ANDRITZ in the course of employee participation programs. As of December 31, 2012, the company held 739,254 own shares at a market value of 35,883 TEUR. It is planned to use these shares for the management share option plan and the employee participation programs.

#### **n) Capital reserves**

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

#### **o) Retained earnings**

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

#### **p) 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.

#### **q) Financial instruments**

A financial instrument is a contract between two entities that creates a financial asset at one entity and a financial liability or equity instrument at another entity.

Under IAS 39, all financial assets and liabilities, including derivative financial instruments, are to be covered in the balance sheet. The accounting for financial instruments is recognized on the trade date. The valuation of financial instruments is based on their classification into the following specified categories:

##### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit and loss are assets which are either held by the Group for trading or which are designated as fair value through profit and loss.

Assets classified as held for trading are assets acquired or held for the purpose of selling or repurchasing in the short term or which are derivatives (except those that are designated as an effective hedging instrument).

Designated financial assets at fair value through profit and loss essentially include any financial assets that are designated irrevocably on initial recognition as one to be measured at fair value with fair value changes in profit or loss regardless of the intention of trade (fair value option).

The fair value option for a financial instrument is not exercised within the Group.

Financial assets generating profits from short-term fluctuations in the market price or dealer's margin are also not kept.

The Group uses derivative financial instruments to manage its exposure to foreign exchange rate risk and commodity price risk. Derivatives are initially recognized at fair value at the date on which the company enters into a derivative contract and are subsequently reassessed to their fair value at each balance sheet date. Changes in value resulting from changes in fair value are recognized in income statement.

Depending on the fair value of the derivative, it is recognized either under other receivables or other liabilities.

##### **Loans and receivables**

The 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.

#### Available for sale (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 Group are designated as AFS financial assets.

AFS financial assets are stated at fair value. Changes in value 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 comprehensive income previously recognized in the investments revaluation reserve is included in profit or loss for the period.

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 any other changes are recognized in equity.

Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive payments is established.

#### Held to maturity

This category will not be further elaborated because the Group does not have a held-to-maturity portfolio.

#### Financial liabilities at fair value through profit or loss

The Group classifies its financial liabilities at fair value through profit or loss if the financial liability is held for trading or if it is a derivative that is not designated or effective as a hedging instrument. The fair value option for a financial instrument is not exercised within the Group.

The Group uses derivative financial instruments to manage its exposure to foreign exchange rate risk and commodity price risk. Derivatives are initially recognized at fair value at the date of entering into a derivative contract. Any change in value resulting from changes in fair value is recognized in income statement.

Depending on the fair value of the derivative, it is recognized either under other receivables or other liabilities.

The Group does not keep any financial liabilities generating profits from short-term fluctuations in the market price or dealer's margin.

#### 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.

#### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, 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 value and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying value 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 value 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 value 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. No reversal is



made if the reasons for impairment of equity instruments, which are measured at amortized costs, no longer apply.

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

Debt and equity instruments are classified either as 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.

#### 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 value 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 value of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

#### Cash Flow hedge

According to the rules for hedge accounting, the 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.

Until 2011, the Group applied hedge accounting for commodity forwards to reflect the commodity price risk resulting from projects. In the 2012 reporting year, these derivatives were measured at their fair value as fair value through profit and loss assets reported under other receivables or other liabilities. Each change of value is now charged to the income statement.

#### Embedded derivatives

IAS 39 outlines the accounting of derivatives that are embedded in non-derivative financial instruments (embedded derivatives). Some hybrid contracts contain both a derivative and non-derivative component. In these cases,

the derivative component is regarded as an embedded derivative and the non-derivative component represents the host contract. If the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and the contract is not rated at fair value, the embedded derivative is separated from the host contract and carried at fair value. The host contract will continue to be measured in accordance with the relevant accounting standard. Changing values of the fair valued embedded derivatives in the Group's consolidated financial statements are shown as "held for trading" in the financial assets at fair value through profit and loss. The carrying value of the embedded derivative is recognized in the balance sheet as other receivables or other liabilities.

#### Recognition and derecognition

If the Group qualifies as a party to the contract concerning the contract regulations, financial assets and financial liabilities are recognized in the consolidated statement of financial position in accordance with the substance of the contractual arrangement. Financial assets and liabilities included in the balance sheet include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, non-current receivables, interest-bearing borrowings, shares, issued bonds, and investment securities.

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.

Financial assets are initially measured at fair value plus transaction costs, except for those financial assets classified as being 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 enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

### r) Other accounting and valuation principles

#### 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.

### s) Management share option programs

On the basis of the Resolution of the Annual General Meeting on March 22, 2012, the ANDRITZ share was split in a ratio of 1:2 as of April 23, 2012; as a result, the total number of share options increased accordingly. All disclosures were adjusted accordingly.

The share capital of ANDRITZ AG amounts to 104,000 TEUR divided into 104 million shares of no-par value. The 103<sup>rd</sup> Annual General Meeting held on March 26, 2010 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 12,000, 20,000, 30,000 and 40,000 shares for managers, 80,000 for Executive Board members, and 100,000 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 20,000 EUR in ANDRITZ shares from their own resources, and members of the Executive Board at least 40,000 EUR.

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 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 2,066,000. The fair value of the options at the time of granting amounts to 8,362 TEUR, thereof 2,539 TEUR have been reported as proportionate expense in 2012. 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 22.34 EUR. The exercise price of 23.18 EUR 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.

The 105<sup>th</sup> Annual General Meeting held on March 22, 2012 adopted another 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 12,000, 20,000, 30,000 and 40,000 shares for managers, 80,000 for Executive Board members, and 100,000 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, 2012 until each date of exercise of an option. Another requirement is that managers must have invested at least 20,000 EUR in ANDRITZ shares from their own resources, and members of the Executive Board at least 40,000 EUR.

The exercise price of the option is the unweighted average closing price of ANDRITZ shares in the four calendar weeks following the 105<sup>th</sup> Annual General Meeting held on March 22, 2012.

The options can be exercised between May 1, 2015 and April 30, 2017 (= 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, 2014 to April 30, 2015 is at least 15% above the exercise price and the earnings per share in business year 2013 (based on the total number of shares listed); or the earnings per share in business year 2014 (based on the total number of shares listed) are at least 15% above the earnings per share in business year 2011 (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, 2015 to April 30, 2016 is at least 20% above the exercise price and the earnings per share in business year 2014 (based on the total number of shares listed); or the earnings per share in business year 2015 (based on the total number of shares listed) are at least 20% above the earnings per share in business year 2011 (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 2012 totaled 2,146,000. The fair value of the options at the time of granting amounts to 13,553 TEUR, thereof 2,636 TEUR have been reported as proportionate expense in 2012. 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 11, 2012 and amounts to 39.17 EUR. The exercise price of 37.15 EUR was calculated in accordance with the rules of the option program. A period of 3.2 years was assumed for the duration of the options. The expected dividend yield was fixed at 2.5%, using a discount rate of 1.25%. The expected volatility was calculated on the basis of the historical development of the ANDRITZ share during the 38 months preceding the grant.

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

#### t) 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*

Currency	Rate at reporting date		Average rate for year	
	December 31, 2012	December 31, 2011	2012	2011
BRL Brazilian real	2.70	2.42	2.51	2.32
CAD Canadian dollar	1.31	1.32	1.29	1.38
CHF Swiss franc	1.21	1.22	1.21	1.23
CNY Chinese yuan	8.22	8.16	8.13	8.99
DKK Danish kroner	7.46	7.43	7.44	7.45
GBP Pound sterling	0.82	0.84	0.81	0.87
INR Indian rupee	72.56	68.71	69.09	65.18
SEK Swedish kronor	8.58	8.91	8.71	9.03
USD US dollar	1.32	1.29	1.29	1.39

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.

#### u) 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

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.

#### **v) 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 value 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 value 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 value 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 value 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.

#### **w) 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 values 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. **Provisions:** Provisions are also recognized and measured on the basis of an estimate of the scale and likelihood of occurrence of future events and on an estimate of the discounting rate of interest. As far as possible, use is also made of past experience.
4. **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".

**5. Management share option programs:** 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. The interpretation of market information necessary for the estimation of fair values also requires a certain degree of subjective judgment. This can result in a difference between the figures recorded and values subsequently realized in the marketplace.

**6. 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.

#### **x) 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 turbogenerators – 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**

Plants, equipment, and services for solid/liquid separation for municipalities and certain industries (e.g. mining, chemicals, 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.

Note: Beginning of 2012, there was a minor shift of some products from the SEPARATION business area to the PULP & PAPER business area. Comparison figures for 2011 have been adjusted accordingly.

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

2012

<i>(in TEUR)</i>	Balance as of January 1, 2012	Currency translation adjust- ments	Addi- tions	Changes in consoli- dation range	Dispo- sals	Trans- fers	Balance as of December 31, 2012
Intangible assets related to customers and technologies	117,372	113	0	47,158	38,695	0	125,948
Other intangible assets	57,853	-759	5,493	-1,124	874	142	60,731
<b>Total intangible assets</b>	<b>175,225</b>	<b>-646</b>	<b>5,493</b>	<b>46,034</b>	<b>39,569</b>	<b>142</b>	<b>186,679</b>
Land and buildings	289,689	-476	36,834	10,512	423	17,383	353,519
Technical equipment and machinery	357,662	-3,867	26,367	4,249	8,650	11,607	387,368
Other equipment, factory and office equipment	126,199	-2,007	18,964	3,687	9,906	3,631	140,568
Assets under construction and advance payments	34,115	83	21,454	0	167	-32,763	22,722
<b>Total property, plant and equipment</b>	<b>807,665</b>	<b>-6,267</b>	<b>103,619</b>	<b>18,448</b>	<b>19,146</b>	<b>-142</b>	<b>904,177</b>
<b>Total intangible and tangible assets</b>	<b>982,890</b>	<b>-6,913</b>	<b>109,112</b>	<b>64,482</b>	<b>58,715</b>	<b>0</b>	<b>1,090,856</b>

2011

<i>(in TEUR)</i>	Balance as of January 1, 2011	Currency translation adjust- ments	Addi- tions	Changes in consoli- dation range	Dispo- sals	Trans- fers	Balance as of December 31, 2011
Intangible assets related to customers and technologies	84,340	125	0	32,907	0	0	117,372
Other intangible assets	54,376	-319	3,777	359	1,418	1,078	57,853
<b>Total 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>



## Depreciation and amortization 2012

<i>(in TEUR)</i>	Balance as of January 1, 2012	Currency translation adjust- ments	Depre- ciation, amorti- zation and im- pairment	Changes in consoli- dation range	Dispo- sals	Trans- fers	Balance as of December 31, 2012
Intangible assets related to customers and technologies	55,966	-75	22,942	0	38,695	0	40,138
Other intangible assets	42,021	-562	6,052	-1,273	825	18	45,431
<b>Total intangible assets</b>	<b>97,987</b>	<b>-637</b>	<b>28,994</b>	<b>-1,273</b>	<b>39,520</b>	<b>18</b>	<b>85,569</b>
Land and buildings	97,685	-369	8,987	-7	293	32	106,035
Technical equipment and machinery	198,289	-1,214	29,553	49	7,662	-270	218,745
Other equipment, factory and office equipment	78,322	-892	16,150	470	9,073	220	85,197
Assets under construction and advance payments	0	0	13	0	0	0	13
<b>Total property, plant and equipment</b>	<b>374,296</b>	<b>-2,475</b>	<b>54,703</b>	<b>512</b>	<b>17,028</b>	<b>-18</b>	<b>409,990</b>
<b>Total intangible and tangible assets</b>	<b>472,283</b>	<b>-3,112</b>	<b>83,697</b>	<b>-761</b>	<b>56,548</b>	<b>0</b>	<b>495,559</b>

## 2011

<i>(in TEUR)</i>	Balance as of January 1, 2011	Currency translation adjust- ments	Depre- ciation, amorti- zation and im- pairment	Changes in consoli- dation range	Dispo- sals	Trans- fers	Balance as of December 31, 2011
Intangible assets related to customers and technologies	38,053	74	17,839	0	0	0	55,966
Other intangible assets	38,621	-146	5,077	0	1,380	-151	42,021
<b>Total 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>

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

## Net book value

<i>(in TEUR)</i>	Costs as of Decem- ber 31, 2012	Accumulated depreciation	Net book value as of Decem- ber 31, 2012	Net book value as of Decem- ber 31, 2011
Intangible assets related to customers and technologies	125,948	40,138	85,810	61,406
Other intangible assets	60,731	45,431	15,300	15,832
<b>Total intangible assets</b>	<b>186,679</b>	<b>85,569</b>	<b>101,110</b>	<b>77,238</b>
Land and buildings	353,519	106,035	247,484	192,004
Technical equipment and machinery	387,368	218,745	168,623	159,373
Other equipment, factory and office equipment	140,568	85,197	55,371	47,877
Assets under construction and advance payments	22,722	13	22,709	34,115
<b>Total property, plant and equipment</b>	<b>904,177</b>	<b>409,990</b>	<b>494,187</b>	<b>433,369</b>
<b>Total intangible and tangible assets</b>	<b>1,090,856</b>	<b>495,559</b>	<b>595,297</b>	<b>510,607</b>

## Impairment

In 2012, impairment charges of 481 TEUR (2011: 1,506 TEUR) for intangible and tangible assets were recorded.

### Collateral

Property, plant and equipment amounting to 8,013 TEUR and 11,242 TEUR as of 31 December 2012 and 2011, 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, 2012, these commitments amounted to 12,863 TEUR (2011: 7,599 TEUR).

### Borrowing costs

No borrowing costs relating to qualifying assets were capitalized in the business years 2012 and 2011 as the amounts were immaterial.

### Finance leases

The carrying value for land and buildings includes an amount of 14,554 TEUR (2011: 6,595 TEUR), the carrying value for technical equipment and machinery includes an amount of 545 TEUR (2011: 934 TEUR), and the carrying value for other equipment, factory and office equipment includes an amount of 459 TEUR (2011: 12 TEUR) 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, 2012 and 2011:

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
<b>COST</b>		
<b>Balance as of January 1</b>	<b>464,306</b>	<b>430,604</b>
Currency translation adjustments	-1,934	3,724
Changes in consolidation range	31,374	29,978
<b>Balance as of December 31</b>	<b>493,746</b>	<b>464,306</b>
<b>ACCUMULATED IMPAIRMENT</b>		
<b>Balance as of January 1</b>	<b>179,593</b>	<b>175,541</b>
Currency translation adjustments	-1,772	3,052
Impairment losses recognized during the period	397	1,000
Changes in consolidation range	-2,247	0
<b>Balance as of December 31</b>	<b>175,971</b>	<b>179,593</b>
<b>NET BOOK VALUE</b>		
Balance as of January 1	284,713	255,063
Balance as of December 31	317,775	284,713
<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
VA TECH HYDRO	97,775	97,846
ANDRITZ Ahlstrom	21,096	21,664
Acquisition of ANDRITZ AG	59,596	59,596
Other	139,308	105,607
	<b>317,775</b>	<b>284,713</b>

### Impairment

In 2012, an impairment of goodwill in an amount of 397 TEUR was made. 325 TEUR of this impairment relates to an acquisition of a smelt pumping business, because the business did not develop according to plan. The impairment of goodwill relates to the PULP & PAPER business area. In 2011, impairment losses of 1,000 TEUR were recorded for goodwill.

## 3. Associated companies

Accumulated total assets of associated companies included in the consolidated financial statements as of December 31, 2012 amounted to 10,958 TEUR (December 31, 2011: 60,647 TEUR), total liabilities amounted to 9,760 TEUR (December 31, 2011: 36,030 TEUR), sales amounted to 23,002 TEUR (2011: 44,652 TEUR), and net income amounted to -3,836 TEUR (2011: -2,557 TEUR). 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>2012</b>	<b>2011</b>
Loans against borrowers' notes	163,000	199,500
Shares in non-consolidated companies	18,516	16,876
Other shares	161,577	8,870
Investment securities	7,281	2,876
Other	4,914	7,768
	<b>355,288</b>	<b>235,890</b>

Shares of Schuler AG at an amount of 149,062 TEUR are included in other shares.

If no liquid market prices are available and none of the factors relevant for valuation models can be measured reliably, investments in non-consolidated companies and other investments are recognized at amortized cost.

#### 5. Inventories

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
Finished goods	55,872	66,462
Work in progress	172,833	161,498
Materials and supplies	176,612	183,783
	<b>405,317</b>	<b>411,743</b>

Impairment losses were increased by 3,996 TEUR (2011: 5,425 TEUR) for products in cases where the net realizable value (selling price less selling and administrative expenses) was less than the acquisition or production cost and for obsolete and slow-moving items.

#### 6. Advance payments made

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

#### 7. Trade accounts receivable

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
Trade accounts receivable - current	606,548	581,367
Trade accounts receivable - non-current	21,385	14,350
	<b>627,933</b>	<b>595,717</b>
thereof neither past due nor impaired	444,141	425,224
thereof past due but not impaired	177,650	165,923
thereof impaired	45,308	30,096
Valuation allowance	-39,166	-25,526
	<b>627,933</b>	<b>595,717</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 value of 177,650 TEUR (2011: 165,923 TEUR) 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.

Development of the valuation allowance for trade accounts receivable is as follows:

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
<b>Balance as of January 1</b>	<b>-25,526</b>	<b>-22,354</b>
Currency translation adjustments	761	379
Charged to expenses	-22,434	-9,513
Use	4,055	2,809
Release	3,978	3,153
<b>Balance as of December 31</b>	<b>-39,166</b>	<b>-25,526</b>

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

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
Up to 60 days past due	103,279	101,504
61 to 120 days past due	25,672	19,436
More than 120 days past due	48,699	44,983
	<b>177,650</b>	<b>165,923</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.

## 8. Construction contracts

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
Contract revenue recognized as sales in the current period	3,675,491	3,318,549
Contract costs incurred and recognized profits (less recognized losses) to date	8,586,996	7,166,344
Advance payments received and progress billings	9,357,138	7,944,146
Amount of retentions	17,165	7,934

The net amounts of construction contracts are composed as follows:

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
Contract costs incurred and recognized profits (less recognized losses) to date	8,586,996	7,166,344
Less: Advance payments received and progress billings	-9,357,138	-7,944,146
	<b>-770,142</b>	<b>-777,802</b>
<b>Recognized in the financial statements as receivables and payables:</b>		
Cost and earnings of projects under construction in excess of billings	320,718	290,490
Billings in excess of cost and earnings of projects under construction	-1,090,860	-1,068,292
	<b>-770,142</b>	<b>-777,802</b>

At the balance sheet date the following overdue billings for the projects exist:

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
61 to 120 days past due	44,709	6,693
More than 120 days past due	46,346	26,357
	<b>91,055</b>	<b>33,050</b>

## 9. Other receivables

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
Receivables from value-added tax and from other taxes and changes	134,751	121,998
Interest rate swaps at fair value	28,537	22,312
Bills of exchange receivable	28,451	28,050
Receivables from prepaid income taxes	23,523	23,867
Prepayments and deferred charges	16,019	17,464
Foreign exchange forward contracts at fair value	15,257	16,373
Receivables from associated companies	12,069	5,719
Loans against borrowers' notes	66,500	0
Commodity forward contracts at fair value	48	0
Other	91,818	124,713
	<b>416,973</b>	<b>360,496</b>
thereof other current receivables	342,122	319,366
thereof other non-current receivables	74,851	41,130
	<b>416,973</b>	<b>360,496</b>

Due to the largely short-term receivables, the carrying value of other receivables essentially corresponds to the fair value.

## 10. Retained earnings

### Dividends

For 2012, a dividend of 1.20 EUR per outstanding share is proposed by the Executive Board. The dividend for 2011 of 113,551 TEUR, which is equal to 1.10 EUR per share, was proposed by the Executive Board and approved at the 105<sup>th</sup> Annual General Meeting on March 22, 2012. The dividend was paid to the shareholders on March 28, 2012.

On February 21, 2013, the Executive Board authorized the consolidated financial statements for the year ended December 31, 2012 according to IFRS.

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

### Management share option programs

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.

The options granted in 2010 totalled 2,066,000. The fair value of the options at the time of granting amounts to 8,362 TEUR, thereof 2,539 TEUR have been reported as proportionate expense in 2012.

Furthermore, 2,146,000 options were granted in 2012. The fair value of the options at the time of granting amounts to 13,553 TEUR, thereof 2,636 TEUR have been reported as proportionate expense in 2012.

The calculation of fair value was based on the Black-Scholes option pricing model.

Movements in options under the share option plans for the 2012 and 2011 financial years were as follows:

	<b>2012</b>		<b>2011</b>	
	Number of options	Average exercise price per option (in EUR)	Number of options	Average exercise price per option (in EUR)
<b>Balance as of January 1</b>	<b>2,099,600</b>	<b>23.00</b>	<b>4,158,000</b>	<b>20.44</b>
Options granted	2,146,000	37.15	0	0.00
Options exercised	-69,600	17.72	-2,022,400	17.72
Options expired and forfeited	-131,000	22.68	-36,000	23.18
<b>Balance as of December 31</b>	<b>4,045,000</b>	<b>30.59</b>	<b>2,099,600</b>	<b>23.00</b>
Exercisable at year-end	0	0.00	81,600	17.72

### Additional capital disclosures

ANDRITZ is committed to maintaining a strong financial profile, characterized by a conservative capital structure that gives excellent financial flexibility. As of December 31, 2012 and 2011, equity and total assets of the company were as follows:

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
Total shareholders' equity	1,033,795	938,873
Equity ratio	20.0%	20.6%
Total assets	5,160,965	4,566,602

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 primarily been satisfied through buy-back of the company's shares.

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, cash and cash equivalents, and 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 2011.

## 11. Provisions

### 2012

<i>(in TEUR)</i>	<b>Balance as of January 1, 2012</b>	<b>Currency translation adjustments</b>	<b>Changes in consolidation range</b>	<b>Reclassification</b>	<b>Use</b>	<b>Re-release</b>	<b>Additions</b>	<b>Unwinding of discount effect</b>	<b>Balance as of December 31, 2012</b>
Provisions for severance payments	77,855	-26	29	0	4,337	16	7,998	3,760	85,263
Provisions for pensions	85,307	108	3,985	0	2,935	4,281	14,542	3,528	100,254
Order-related non-current provisions	121,671	-1,008	6,422	-11,462	16,370	25,072	34,180	0	108,361
Other non-current provisions	16,663	-4	258	0	335	20	1,221	565	18,348
<b>Non-current provisions</b>	<b>301,496</b>	<b>-930</b>	<b>10,694</b>	<b>-11,462</b>	<b>23,977</b>	<b>29,389</b>	<b>57,941</b>	<b>7,853</b>	<b>312,226</b>
Order-related current provisions	344,508	-2,299	2,957	11,462	38,740	63,214	139,397	0	394,071
Other current provisions	21,301	-315	0	0	3,888	2,361	4,413	0	19,150
<b>Current provisions</b>	<b>365,809</b>	<b>-2,614</b>	<b>2,957</b>	<b>11,462</b>	<b>42,628</b>	<b>65,575</b>	<b>143,810</b>	<b>0</b>	<b>413,221</b>

2011

<i>(in TEUR)</i>	<b>Balance as of January 1, 2011</b>	<b>Currency translation adjust- ments</b>	<b>Changes in consoli- dation range</b>	<b>Reclassi- fication</b>	<b>Use</b>	<b>Re- lease</b>	<b>Addi- tions</b>	<b>Un- winding of dis- count effect</b>	<b>Balance as of Decem- ber 31, 2011</b>
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>

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.

## 12. 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, 2012 and 2011:

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
<b>Defined benefit obligation as of January 1</b>	<b>217,494</b>	<b>198,284</b>
Currency translation adjustments	740	3,124
Current service cost	5,157	5,715
Interest cost on obligations	8,226	7,576
Actuarial losses	17,222	13,379
Benefits paid	-8,771	-6,578
Contributions by the plan participants	2,579	2,458
Past service cost	0	279
Effects of plan curtailments and settlements	-4,281	-6,743
Changes in consolidation range	20,359	0
<b>Defined benefit obligation as of December 31</b>	<b>258,725</b>	<b>217,494</b>
Fair value of plan assets	-158,471	-132,187
<b>Defined benefit liability as of December 31</b>	<b>100,254</b>	<b>85,307</b>

Total pension obligations of 258,725 TEUR (2011: 217,494 TEUR) include 192,176 TEUR (2011: 171,199 TEUR) 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>2012</b>	<b>2011</b>
<b>Fair value of plan assets as of January 1</b>	<b>132,187</b>	<b>126,437</b>
Currency translation adjustments	632	2,695
Expected return on plan assets	4,698	5,552
Actuarial losses/gains	794	-5,200
Contributions by the employer	7,043	7,868
Contributions by the plan participants	2,579	2,458
Benefits paid	-5,836	-2,779
Effects of plan curtailments and settlements	0	-4,844
Changes in consolidation range	16,374	0
<b>Fair value of plan assets as of December 31</b>	<b>158,471</b>	<b>132,187</b>

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

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
Equity instruments	38,261	31,382
Debt instruments	74,837	60,712
Property, plant and equipment	22,285	19,264
Other assets	23,088	20,829
	<b>158,471</b>	<b>132,187</b>

Pension expenses comprise the following:

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
Current service cost	5,157	5,715
Past service cost	0	279
Effects of plan curtailments and settlements	-4,281	-1,899
	<b>876</b>	<b>4,095</b>
Payments to defined contribution plans	27,426	23,856
	<b>28,302</b>	<b>27,951</b>

Principal actuarial assumptions used by the major group companies to determine pension obligation as of December 31, 2012 and 2011 are as follows:

<i>(in %)</i>	<b>2012</b>		<b>2011</b>	
	from	to	from	to
Discount rate	3.75	4.00	4.00	5.00
Wage and salary increases	2.50	3.00	2.50	3.00
Retirement benefit increases	2.50	3.25	2.50	3.00
Expected return on plan assets	2.75	4.90	3.40	5.00

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 2012, the actual return on plan assets was 3.86% (2011: actual return of 0.23%).

Experience adjustments are as follows:

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Present value of defined benefit obligation	258,725	217,494	198,284	167,131	170,449
Fair value of plan assets	158,471	132,187	126,437	105,675	102,108
<b>Deficit of the plan</b>	<b>100,254</b>	<b>85,307</b>	<b>71,847</b>	<b>61,456</b>	<b>68,341</b>
Experience adjustments to the defined benefit obligation	9,205	-15,322	-9,085	-7,489	-15,112
Experience adjustments to the plan assets	1,752	-5,680	2,223	2,081	-1,895

The expected payments to pension funds for defined benefits are 6,628 TEUR for the fiscal year 2013.



### Severance payments

The following table shows the changes in the severance benefit obligation for the years ended December 31, 2012 and 2011:

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
<b>Defined benefit obligation as of January 1</b>	<b>78,571</b>	<b>74,596</b>
Currency translation adjustments	-73	-81
Current service cost	2,803	2,806
Interest cost on obligations	3,851	3,231
Actuarial losses	5,350	3,174
Benefits paid	-4,415	-6,634
Effects of plan curtailments and settlements	-16	-5
Changes in consolidation range	29	1,484
<b>Defined benefit obligation as of December 31</b>	<b>86,100</b>	<b>78,571</b>
Fair value of plan assets	-837	-716
<b>Defined benefit liability as of December 31</b>	<b>85,263</b>	<b>77,855</b>

Severance expenses comprise the following:

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
Current service cost	2,803	2,806
Effects of plan curtailments and settlements	-16	-5
	<b>2,787</b>	<b>2,801</b>
Payments to defined contribution plans	1,992	1,792
	<b>4,779</b>	<b>4,593</b>

Experience adjustments are as follows:

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Present value of defined benefit obligation	86,100	78,571	74,596	74,212	81,741
Fair value of plan assets	837	716	660	374	235
<b>Deficit of the plan</b>	<b>85,263</b>	<b>77,855</b>	<b>73,936</b>	<b>73,838</b>	<b>81,506</b>
Experience adjustments to the defined benefit obligation	-5,591	-233	-65	6,411	529
Experience adjustments to the plan assets	-33	2	-16	-9	18

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

**13. Maturities of financial liabilities**

2012

<i>(in TEUR)</i>	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	186,654	162,493	362,606	711,753
Bank loans and other financial liabilities	15,063	4,798	31,936	6,990	2,677	61,464
Obligations under finance leases	138	233	993	2,858	13,203	17,425
	<b>15,201</b>	<b>5,031</b>	<b>219,583</b>	<b>172,341</b>	<b>378,486</b>	<b>790,642</b>

2011

<i>(in TEUR)</i>	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>

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 carrying value of liabilities corresponds essentially to the fair value.

**14. Other liabilities**

<i>(in TEUR)</i>	2012	2011
Outstanding invoices for order-related costs	516,286	435,164
Bonuses, unused vacation and other personnel-related accruals	163,767	150,244
Liabilities from value-added tax and from other taxes and charges	49,952	53,400
Liabilities from commissions	20,397	8,811
Foreign exchange forward contracts at fair value	20,083	43,227
Prepayments and deferred charges	12,949	9,185
Liabilities due to associated companies	1,758	3,766
Commodity forward contracts at fair value	129	468
Other	106,120	96,406
	<b>891,441</b>	<b>800,671</b>
thereof other current liabilities	878,259	786,536
thereof other non-current liabilities	13,182	14,135
	<b>891,441</b>	<b>800,671</b>

Other non-current liabilities include trade accounts payable amounting to 840 TEUR (2011: 1,572 TEUR).

The carrying value of other liabilities corresponds essentially to the fair value.

**G) NOTES TO THE CONSOLIDATED INCOME STATEMENT****15. Sales**

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
Contract revenue recognized as sales in the current period	3,675,491	3,318,549
Other	1,501,389	1,277,444
	<b>5,176,880</b>	<b>4,595,993</b>

**16. Other operating income**

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
Exchange rate gains	25,082	28,006
Government grants	12,040	10,065
Insurance income	5,694	3,585
Income from release of valuation allowance on receivables	3,978	3,153
Rental income	2,508	2,551
Profit on disposal of intangible and tangible assets	617	2,076
Other	29,687	35,327
	<b>79,606</b>	<b>84,763</b>

**17. Personnel expenses**

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
Wages and salaries	895,005	797,277
Social security and payroll-related duties	145,834	130,116
Other	39,931	35,465
Pension expenses	28,302	27,951
Severance expenses	4,779	4,593
	<b>1,113,851</b>	<b>995,402</b>

**18. Other operating expenses**

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
Sales expenses	313,865	236,250
Rents and leases	53,752	44,244
Administrative expenses	53,565	43,526
Insurance premiums and charges	26,957	24,117
Exchange rate losses	23,702	36,124
Change in valuation allowance for trade receivables	22,434	9,513
Expenses for industrial patents, rights, licenses	8,229	6,172
Losses on disposal of intangible and tangible assets	484	1,006
Other	174,177	148,431
	<b>677,165</b>	<b>549,383</b>

**19. Financial result**

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
Income/expense from associated companies	-1,392	-1,747
Interest and similar income	33,483	34,208
Interest and similar expenses	-29,667	-23,251
<b>Interest result</b>	<b>3,816</b>	<b>10,957</b>
Other financial result	-5,252	-161
	<b>-2,828</b>	<b>9,049</b>

Interest and similar expenses include 7,853 TEUR (2011: 5,750 TEUR) in interest costs on pension and severance and jubilee obligations as well as expected returns on plan assets.

## 20. Income taxes

Tax expense on income taxes comprises the following:

<i>(in TEUR)</i>	2012	2011
Current tax expense	-103,666	-100,422
Deferred tax benefit relating to the origination and reversal of temporary differences	14,224	10,145
	<b>-89,442</b>	<b>-90,277</b>

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

<i>(in TEUR)</i>	2012	2011
Deferred tax assets	107,180	91,704
Deferred tax liabilities	-85,155	-79,796
<b>Balance as of January 1</b>	<b>22,025</b>	<b>11,908</b>
Deferred tax benefit relating to the origination and reversal of temporary differences		
Charged to income statement	14,224	10,145
Charged to equity	-8,582	-28
	<b>27,667</b>	<b>22,025</b>
therof		
Deferred tax assets	121,579	107,180
Deferred tax liabilities	-93,912	-85,155

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

<i>(in TEUR)</i>	2012	2011
Earnings Before Taxes (EBT)	331,646	321,745
Tax at the applicable tax rate (25% in 2012 and 25% in 2011)	-82,912	-80,436
Non-deductible impairment of goodwill	-103	-269
Tax effects of		
Changes in tax rate and differences in foreign tax rates	-3,123	-4,113
Other changes	-3,304	-5,459
<b>Effective tax expense</b>	<b>-89,442</b>	<b>-90,277</b>
in % of EBT	-27.0%	-28.1%

Deferred tax assets and deferred tax liabilities as of December 31, 2012 and 2011 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>	2012		2011	
	assets	liabilities	assets	liabilities
Intangible assets	1,524	-22,885	1,333	-15,443
Property, plant and equipment	5,488	-17,566	4,728	-14,811
Financial assets	5,057	-9,523	934	-10,305
Inventories	292,333	-11,426	235,646	-3,263
Receivables and other assets	18,250	-67,450	18,288	-81,351
	<b>322,652</b>	<b>-128,850</b>	<b>260,929</b>	<b>-125,173</b>
Provisions	110,924	-28,209	101,255	-23,845
Liabilities	62,750	-306,950	56,268	-241,607
	<b>173,674</b>	<b>-335,159</b>	<b>157,523</b>	<b>-265,452</b>
Tax loss carry-forwards	59,854	0	56,637	0
<b>Deferred tax assets/liabilities</b>	<b>556,180</b>	<b>-464,009</b>	<b>475,089</b>	<b>-390,625</b>
Valuation allowance for deferred tax assets	-64,504	0	-62,439	0
Offset within legal tax units and jurisdiction	-370,097	370,097	-305,470	305,470
<b>Net deferred tax assets and liabilities</b>	<b>121,579</b>	<b>-93,912</b>	<b>107,180</b>	<b>-85,155</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>	<b>2012</b>	<b>2011</b>
Deductable temporary differences	32,339	18,592
Tax loss carry-forwards	182,902	187,325

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.

## **21. Earnings per share**

Basic earnings per share (as presented in 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.

**2012****Business area data**

<i>(in TEUR)</i>	<b>HY</b>	<b>PP</b>	<b>SE</b>	<b>ME</b>	<b>FB</b>	<b>Tran- sition</b>	<b>Total</b>
Sales	1,836,756	2,282,244	468,015	404,672	185,193	0	5,176,880
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	182,446	156,182	39,293	27,964	12,683	0	418,568
Total assets	1,356,289	894,937	386,543	225,800	122,512	2,174,884	5,160,965
Total liabilities	1,410,752	1,024,393	196,518	207,578	60,844	1,227,085	4,127,170
Capital expenditure	56,726	36,391	3,687	2,567	9,741	0	109,112
Depreciation, amortization and impairment of intangible assets and property, plant and equipment	37,591	30,185	7,723	5,716	2,482	0	83,697
Share of net profit/loss of associates	-872	-520	0	0	0	0	-1,392
Shares in associated companies	0	555	0	0	0	0	555

**Geographical segment data**

<i>(in TEUR)</i>	<b>Europe</b>	<b>North America</b>	<b>South America</b>	<b>Asia</b>	<b>Rest of the world and consolidation</b>	<b>Total</b>
External sales	1,916,910	732,559	1,201,566	1,148,752	177,093	5,176,880
Non-current assets	547,216	106,661	75,216	73,457	206,758	1,009,308
Capital expenditure	85,490	5,826	3,814	13,337	645	109,112

External sales for Europe encompass an amount of 169,350 TEUR for sales realized in Austria. Non-current assets of 295,628 TEUR are located in Austria.

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

**2011****Business area data**

<i>(in TEUR)</i>	<b>HY</b>	<b>PP*</b>	<b>SE*</b>	<b>ME</b>	<b>FB</b>	<b>Tran- sition</b>	<b>Total</b>
Sales	1,772,863	1,884,880	419,874	372,736	145,640	0	4,595,993
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	174,265	138,087	42,668	21,554	9,578	0	386,152
Total assets	1,491,171	809,168	345,953	182,232	92,746	1,645,332	4,566,602
Total liabilities	1,476,399	987,487	182,436	192,118	51,026	738,263	3,627,729
Capital expenditure	44,320	22,399	4,080	1,790	4,385	0	76,974
Depreciation, amortization and impairment of intangible assets and property, plant and equipment	35,556	24,622	7,477	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

\* At the beginning of 2012, there was a minor shift of some products from the SEPARATION business area to the PULP & PAPER business area. Comparison figures have been adjusted accordingly.

**Geographical segment data**

<i>(in TEUR)</i>	<b>Europe</b>	<b>North America</b>	<b>South America</b>	<b>Asia</b>	<b>Rest of the world and consolidation</b>	<b>Total</b>
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 124,220 TEUR for sales realized in Austria. Non-current assets of 258,088 TEUR are located in Austria.

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

**I) NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS**

Cash flows from company acquisitions\*

<i>(in TEUR)</i>	<b>Business area</b>				<b>Total</b>	<b>Total</b>
	<b>HY</b>	<b>PP</b>	<b>SE</b>	<b>ME</b>	<b>2012</b>	<b>2011</b>
Intangible assets	9,939	6,500	13,800	16,937	47,176	33,259
Property, plant and equipment	3,105	606	8,727	5,230	17,668	10,957
Inventories	0	1,829	8,882	6,940	17,651	23,812
Trade and other receivables	320	13,438	13,839	13,137	40,734	58,978
Liabilities	-9,834	-20,895	-24,592	-28,809	-84,130	-86,603
<b>Non-interest bearing net assets</b>	<b>3,530</b>	<b>1,478</b>	<b>20,656</b>	<b>13,435</b>	<b>39,099</b>	<b>40,403</b>
Marketable securities	0	0	0	0	0	4,035
Cash and cash equivalents	4,262	4,690	5,572	3,923	18,447	8,537
Financial assets	0	0	2,906	1,115	4,021	1,010
Financial liabilities	-483	0	0	-11,977	-12,460	-10,231
Goodwill	6,041	6,167	4,820	16,593	33,621	29,978
Non-controlling interests	-3,260	0	0	0	-3,260	0
<b>Total purchase price</b>	<b>10,090</b>	<b>12,335</b>	<b>33,954</b>	<b>23,089</b>	<b>79,468</b>	<b>73,732</b>
Purchase price paid	-4,025	-12,335	-33,954	-21,026	-71,340	-73,732
Cash and cash equivalents acquired	4,262	4,690	5,572	3,923	18,447	8,537
<b>Net cash flow</b>	<b>237</b>	<b>-7,645</b>	<b>-28,382</b>	<b>-17,103</b>	<b>-52,893</b>	<b>-65,195</b>
Liabilities from purchase price not paid	0	0	0	-2,064	-2,064	0
Fair value of investments previously held under equity method	-6,065	0	0	0	-6,065	0
<b>Purchase price not paid in cash</b>	<b>-6,065</b>	<b>0</b>	<b>0</b>	<b>-2,064</b>	<b>-8,129</b>	<b>0</b>

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

The initial accounting for the businesses acquired in 2012 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 possible and to enhance monitoring, control, and assessment of its financial and liquidity position, the ANDRITZ GROUP has 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 counterpart defaulting.

Credit risk associated with cash, cash equivalents, 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 offset. These amounts are only reported on a net basis. Valuation allowances are included for all known risks. 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 values 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>2012</b>	<b>2011</b>
Held for trading	28,285	38,846
Available for sale	332,767	448,035
Loans and receivables	1,460,697	1,375,350
Derivatives (hedge accounting)	28,537	22,312
Cash and cash equivalents	1,492,848	1,169,888
	<b>3,343,134</b>	<b>3,054,431</b>

The available-for-sale category includes a balance of impairment of 2,678 TEUR (balance 2011: 4,038 TEUR). The loans and receivables category includes a balance of impairment for trade receivables of 39,166 TEUR (balance 2011: 25,526 TEUR).

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. In 2012, the three largest customers contribute less than 10% of total order intake of the Group. On an overall basis, there is no significant concentration of credit risk.

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

In June 2006, the company issued bonds for a nominal value of 200 MEUR with a tenor 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, 2,500 TEUR (2011: 14,000 TEUR) of this bond were bought back, but the proportionate interest rate swap was not sold.

In February 2008, the company issued another bond for a nominal value of 150 MEUR with a tenor 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.

In July 2012, the company issued another bond for a nominal value of 350 MEUR with a tenor of seven years and a nominal interest rate of 3.875% 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 values 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>2012</b>	<b>2011</b>
Fair value of swaps as of January 1	22,312	22,880
Fair value of swaps as of December 31	28,537	22,312
<b>Gains/loss recognized through profit or loss</b>	<b>6,225</b>	<b>-568</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>2012</b>	<b>2011</b>
Cash on current accounts	0.5	0.9
Current deposits	1.2	2.1
Securities - current	1.6	2.1
Securities - non-current	1.0	2.9
Overdrafts on current accounts	8.8	5.9
Current loans	6.5	13.8
Non-current loans	3.1	1.8
Bonds - current	1.1	-
Bonds - non-current	2.7	2.1

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 of the ANDRITZ GROUP.

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>2012</b>	<b>2011</b>
Rise in USD against EUR by 10%	-3,557	-2,719
Fall in USD against EUR by 10%	1,986	2,471
Rise in CHF against EUR by 10%	385	-1,438
Fall in CHF against EUR by 10%	-385	690

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 these 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 kept constant, this would have caused a decrease of the fair value of the swaps in the amount of 25,771 TEUR (2011: decrease of 8,664 TEUR). This change would be offset by a basis adjustment of the bonds in nearly the same amount.

If interest rates had been 100 basis points lower and all other variables were kept constant, this would have caused an increase of the fair value of the swaps in the amount of 26,826 TEUR (2011: increase of 6,938 TEUR). This change would be offset by a basis adjustment of the bonds in nearly the same amount.

A rise in the interest level by 100 basis points while simultaneously keeping all other variables constant would have led to an increase in the interest result of 13,110 TEUR in the business year 2012 (2011: increase of 13,032 TEUR). 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 fair value is the amount for which financial instruments could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Derivatives and securities traded on the stock exchange are valued at quoted market prices. The fair value of forward and commodity forward contracts is based on current forward rates. Interest rate swaps and forward rate agreements are based on discounted cash flows, where the market interest rate for the remaining period is applied.

Shares in non-consolidated companies and other shares are stated at amortized cost except shares of listed companies because the fair value cannot be determined reliably. Investments in associated companies are measured using the equity method unless they are only of minor importance.

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

<i>(in TEUR)</i>	<b>Net book value Decem- ber 31, 2012</b>	<b>Fair Value Decem- ber 31, 2012</b>	<b>Net book value Decem- ber 31, 2011</b>	<b>Fair Value Decem- ber 31, 2011</b>
<b>ASSETS</b>				
<b>Other investments</b>				
Loans and receivables	234,414	234,414	207,269	207,269
Available for sale	187,374	187,374	28,622	28,622
<b>Receivables and other assets</b>				
Loans and receivables	1,226,283	1,226,283	1,168,081	1,168,081
Derivatives	28,285	28,285	38,846	38,846
Derivatives (hedge accounting)	28,537	28,537	22,312	22,312
<b>Marketable securities</b>				
Available for sale*	325,486	325,486	445,159	445,159
<b>Cash and cash equivalents</b>	<b>1,492,848</b>	<b>1,492,848</b>	<b>1,169,888</b>	<b>1,169,888</b>
	<b>3,523,227</b>	<b>3,523,227</b>	<b>3,080,177</b>	<b>3,080,177</b>
<b>LIABILITIES</b>				
<b>Financial liabilities</b>				
Measured at amortized costs	773,217	773,217	427,841	427,841
Obligations under finance leases	17,425	17,425	8,453	8,453
<b>Trade accounts payable</b>				
Measured at amortized costs	420,369	420,369	438,596	438,596
<b>Other liabilities</b>				
Measured at amortized costs	1,941,880	1,941,880	1,821,369	1,821,369
Derivatives	27,472	27,472	47,594	47,594
	<b>3,180,363</b>	<b>3,180,363</b>	<b>2,743,853</b>	<b>2,743,853</b>

\* This includes equity instruments measured at cost, where fair value can not be measured reliably (2012: 31,031 TEUR; 2011: 25,746 TEUR).

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

<i>(in TEUR)</i>	<b>Net book value Decem- ber 31, 2012</b>	<b>Fair Value Decem- ber 31, 2012</b>	<b>Net book value Decem- ber 31, 2011</b>	<b>Fair Value Decem- ber 31, 2011</b>
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	1,492,848	1,492,848	1,169,888	1,169,888
<b>At fair value through profit and loss - trading</b>				
Derivatives	15,305	15,305	16,373	16,373
Embedded derivatives	12,980	12,980	22,473	22,473
<b>Available for sale</b>				
Shares in non-consolidated companies and other shares*	180,093	180,093	25,746	25,746
Investment securities	7,281	7,281	2,876	2,876
Marketable securities	325,486	325,486	445,159	445,159
<b>Loans and receivables</b>				
Non-current securities and participations	234,414	234,414	207,269	207,269
Other non-current receivables and other assets	46,314	46,314	18,818	18,818
Trade accounts receivable	627,933	627,933	595,717	595,717
Cost and earnings of projects under construction in excess of billings	320,718	320,718	290,490	290,490
Other receivables and assets - current	231,318	231,318	263,056	263,056
<b>Other receivables</b>				
Derivatives (hedge accounting)	28,537	28,537	22,312	22,312
	<b>3,523,227</b>	<b>3,523,227</b>	<b>3,080,177</b>	<b>3,080,177</b>
<b>FINANCIAL LIABILITIES</b>				
<b>At fair value through profit and loss - trading</b>				
Derivatives	20,212	20,212	43,695	43,695
Embedded derivatives	7,260	7,260	3,899	3,899
<b>Measured at amortized costs</b>				
Bonds	711,753	711,753	357,706	357,706
Bank loans and other financial liabilities	61,464	61,464	70,135	70,135
Trade accounts payable	420,369	420,369	438,596	438,596
Billings in excess of cost and earnings of projects under construction	1,090,860	1,090,860	1,068,292	1,068,292
Other liabilities	851,020	851,020	753,077	753,077
<b>Other liabilities not allocated to any IAS 39 valuation category</b>				
Obligations under finance leases	17,425	17,425	8,453	8,453
	<b>3,180,363</b>	<b>3,180,363</b>	<b>2,743,853</b>	<b>2,743,853</b>

\* This includes equity instruments measured at cost, where fair value can not be measured reliably (2012: 31,031 TEUR; 2011: 25,746 TEUR).

**b) Fair value hedges**

The Group uses interest rate swaps to hedge the change in fair value of emitted bonds due to interest rate changes. If the hedge is determined to be effective, the carrying amount of the hedged item is adjusted for changes in the fair value attributable to the hedged risk.

The following table shows the changes recognized through profit and loss from hedged items and hedging instruments in fair value hedging relationships.

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
From hedged item	-6,547	1,174
From hedging instrument	6,225	-568
<b>Gains/loss recognized through profit or loss</b>	<b>-322</b>	<b>606</b>

The stock of bonds (hedged) developed as follows:

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
<b>Balance as of January 1</b>	<b>357,706</b>	<b>372,880</b>
Gains/loss recognized through profit or loss	6,547	-1,174
Issue	350,000	0
Settlements	-2,500	-14,000
<b>Balance as of December 31</b>	<b>711,753</b>	<b>357,706</b>

**c) Fair value hierarchy**

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 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.

## 2012

<i>(in TEUR)</i>	<b>Total as of Decem- ber 31, 2012</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	15,305	0	15,305	0
Embedded derivatives	12,980	0	12,980	0
<b>Available for sale</b>				
Shares in non-consolidated companies and other shares*	149,062	0	0	149,062
Investment securities	7,281	7,281	0	0
Marketable securities	325,486	325,486	0	0
<b>Other receivables</b>				
Derivatives (hedge accounting)	28,537		28,537	
	<b>538,651</b>	<b>332,767</b>	<b>56,822</b>	<b>149,062</b>
<b>FINANCIAL LIABILITIES</b>				
<b>At fair value through profit and loss - trading</b>				
Derivatives	20,212	0	20,212	0
Embedded derivatives	7,260	0	7,260	0
	<b>27,472</b>	<b>0</b>	<b>27,472</b>	<b>0</b>

\* Without shares measured at amortized costs in an amount of 31,031 TEUR (2011: 25,746 TEUR)

## 2011

<i>(in TEUR)</i>	<b>Total as of Decem- ber 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	16,373	0	16,373	0
Embedded derivatives	22,473	0	22,473	0
<b>Available for sale</b>				
Investment securities	2,876	2,876	0	0
Marketable securities	445,159	445,159	0	0
<b>Other receivables</b>				
Derivatives (hedge accounting)	22,312		22,312	
	<b>509,193</b>	<b>448,035</b>	<b>61,158</b>	<b>0</b>
<b>FINANCIAL LIABILITIES</b>				
<b>At fair value through profit and loss - trading</b>				
Derivatives	43,695	0	43,695	0
Embedded derivatives	3,899	0	3,899	0
	<b>47,594</b>	<b>0</b>	<b>47,594</b>	<b>0</b>

The reconciliation to the Level 3 and measured at fair value financial instruments is as follows:

In June 2012, ANDRITZ has acquired 24.99% of the shares of Schuler AG. These securities are carried at fair value under other financial assets in the amount of 149,062 TEUR and are reported as level 3 of the fair value hierarchy. Due to the tender offer and the shareholding structure of Schuler AG trading volume on the stock exchange was very low. For this reason, ANDRITZ did not take the share price of 19.43 EUR as of the reporting date, but took the purchase price of 20.00 EUR per share plus acquisition costs for 7,422,707 acquired Schuler shares.

**d) Fair value calculation**

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

Derivative financial transactions – classified by maturity – are as follows:

2012

<i>(in TEUR)</i>	Remaining terms nominal values			Fair Value	
	Not exceeding 1 year	more than 1 year	Total	positive	negative
<b>Interest rate related forward contracts</b>					
Interest rate swaps	200,000	500,000	700,000	28,537	0
<b>Foreign exchange related forward contracts</b>					
Foreign exchange forward contracts	805,871	344,030	1,149,901	15,257	-20,083
Embedded derivatives	196,820	94,971	291,791	12,980	-7,260
	<b>1,002,691</b>	<b>439,001</b>	<b>1,441,692</b>	<b>28,237</b>	<b>-27,343</b>
<b>Other forward contracts</b>					
Commodity forward contracts	5,599	1,065	6,664	48	-129
<b>Total</b>	<b>1,208,290</b>	<b>940,066</b>	<b>2,148,356</b>	<b>56,822</b>	<b>-27,472</b>

2011

<i>(in TEUR)</i>	Remaining terms nominal values			Fair Value	
	Not exceeding 1 year	more than 1 year	Total	positive	negative
<b>Interest rate related forward contracts</b>					
Interest rate swaps	0	350,000	350,000	22,312	0
<b>Foreign exchange related forward contracts</b>					
Foreign exchange forward contracts	784,983	369,491	1,154,474	16,373	-43,227
Embedded derivatives	129,875	132,815	262,690	22,473	-3,899
	<b>914,858</b>	<b>502,306</b>	<b>1,417,164</b>	<b>38,846</b>	<b>-47,126</b>
<b>Other forward contracts</b>					
Commodity forward contracts	8,354	2,246	10,600	0	-468
<b>Total</b>	<b>923,212</b>	<b>854,552</b>	<b>1,777,764</b>	<b>61,158</b>	<b>-47,594</b>

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

<i>(in TEUR)</i>	Not exceeding		Total 2012	Total 2011
	1 year	more than 1 year		
US dollar	385	-617	-232	-13,406
Swiss franc	-1,952	-3,622	-5,574	-7,662
Euro	699	269	968	-6,419
Other currencies	-571	583	12	633
	<b>-1,439</b>	<b>-3,387</b>	<b>-4,826</b>	<b>-26,854</b>

The remaining terms of the embedded derivatives are as follows:

<i>(in TEUR)</i>	Not exceeding		Total 2012	Total 2011
	1 year	more than 1 year		
US Dollar	-1,177	851	-326	11,635
Swiss Franc	1,480	3,924	5,404	6,564
Euro	519	95	614	187
Other currencies	22	6	28	188
	<b>844</b>	<b>4,876</b>	<b>5,720</b>	<b>18,574</b>



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

The carrying value of cash, cash equivalents, 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 values of receivables and payables, which are all subject to normal trade credit terms, correspond basically to their fair values.

#### Short-term borrowings

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

#### Long-term borrowings

The fair value of 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 values. 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.

#### e) IAS 39 reserve

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

<i>(in TEUR)</i>	<b>Unrealized gain/loss on hedging activities</b>	<b>Unrealized gain/loss on securities</b>	<b>Unrealized gain/loss total IAS 39 reserve</b>
<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>
Gains and losses from changes in fair value	0	1,320	1,320
Deferred income taxes thereon	0	-325	-325
Transfers to income statement	0	-645	-645
Deferred income taxes thereon	0	156	156
<b>BALANCE AS OF DECEMBER 31, 2012</b>	<b>0</b>	<b>695</b>	<b>695</b>

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

#### 2012

<i>(in TEUR)</i>	<b>Held for trading Derivatives</b>	<b>Held for trading Embedded derivatives</b>	<b>Available for sale Securities</b>
Changes in fair values recognized in profit or loss	28,640	-12,854	449
Changes in fair values recognized in equity	0	0	1,320
Recycling out of equity	0	0	-645
<b>Net gains/losses</b>	<b>28,640</b>	<b>-12,854</b>	<b>1,124</b>

#### 2011

<i>(in TEUR)</i>	<b>Held for trading Derivatives</b>	<b>Held for trading Embedded derivatives</b>	<b>Available for sale Securities</b>
Changes in fair values recognized in profit or loss	-18,055	14,421	-484
Changes in fair values recognized in equity	0	0	-1,564
Recycling out of equity	-861	0	484
<b>Net gains/losses</b>	<b>-18,916</b>	<b>14,421</b>	<b>-1,564</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>	2012	2011
Not exceeding 1 year	30,638	24,995
1 to 5 years	50,650	39,866
After 5 years	13,255	5,767
	<b>94,543</b>	<b>70,628</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>	2012	2011
Not exceeding 1 year	1,835	1,126
1 to 5 years	4,538	2,654
After 5 years	14,568	7,399
<b>Total minimum lease payments</b>	<b>20,941</b>	<b>11,179</b>
Less amount representing interest	-3,516	-2,726
<b>Present value of leasing payments</b>	<b>17,425</b>	<b>8,453</b>
Less current portion	-1,364	-757
<b>Non-current lease obligations</b>	<b>16,061</b>	<b>7,696</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, contract claims and product liability issues. Although the outcome of any specific 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.

ANDRITZ Inc., a subsidiary of the ANDRITZ GROUP, is one of many defendants in 55 asbestos cases (status as of December 31, 2012) in the USA. In aggregate, the cases involve 444 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.

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

Under IAS 24 (Related Party Disclosures), related parties should be disclosed if they are not already included as a consolidated company in the consolidated financial statements of ANDRITZ AG.

In addition to the companies included in the consolidated financial statements, the Group has direct or indirect relations in the ordinary course of business with non-consolidated subsidiaries and associated companies that are considered as related parties of the Group.

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.

Under IAS 24, the Group also reports on transactions between itself and its related persons and their family members, respectively. Members of the Executive Board and of the Supervisory Board, as well as their families, have been defined as related parties.

A company attributed to the President and CEO of ANDRITZ AG has ceded operation of a corporate jet aircraft owned by the company to a professional private aviation firm from which ANDRITZ AG has chartered around 35% of annual flight hours of these aircraft for business trips by the President and CEO and the other members of the Executive Board. The related expenses amounted to 1,105.9 TEUR in 2012 (2011: 515.9 TEUR). As of December 31, 2012, liabilities in an amount of 15.6 TEUR (2011: 0 TEUR) were recognized.

This and other business relations with companies in which members of the Supervisory Board or the Executive Board are involved are conducted at usual market terms and are of minor importance, both individually and collectively.

The extent of business relations towards non-consolidated Group companies and associated companies is shown in the following table:

<i>(in TEUR)</i>	<b>2012</b>	<b>2011</b>
<b>Trade and other receivables</b>	<b>17,546</b>	<b>9,150</b>
from non-consolidated subsidiaries	5,477	3,351
from associated companies	12,069	5,799
<b>Liabilities</b>	<b>3,712</b>	<b>5,831</b>
from non-consolidated subsidiaries	1,954	2,065
from associated companies	1,758	3,766
<b>Sales</b>	<b>4,581</b>	<b>4,687</b>
from non-consolidated subsidiaries	4,427	2,601
from associated companies	154	2,086
<b>Expenses</b>	<b>-36,922</b>	<b>-24,368</b>
from non-consolidated subsidiaries	-21,139	-11,755
from associated companies	-15,783	-12,613

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.

The remuneration disclosed in accordance with IAS 24 for remuneration of key managers of the Group included the remuneration of the current Executive and Supervisory Boards.

#### 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; after this, annual adjustments can be made to take account of the development in wages and salaries and of ANDRITZ's economic status.

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>2012</b>	<b>2011</b>
Short-term benefits	12,747	10,114
Post-employment benefits	390	399
Share-based expenses	1,184	541
	<b>14,321</b>	<b>11,054</b>

A provision of 5,261 TEUR in 2012 (4,446 TEUR in 2011) was recorded for pensions of former members of the Executive Board and their dependants; the current year expense for these pensions amounted to 1,201 TEUR for 2012 (825 TEUR for 2011).

ANDRITZ AG took out Directors' and Officers' liability insurance (D&O insurance) for 2012. 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 TEUR.

#### 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 188 TEUR (2011: 110 TEUR).

### 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>2012</b>	<b>2011</b>
Year-end audit	531	378
Other reviews	101	0
Tax advisory services	98	151
	<b>730</b>	<b>529</b>

### P) EVENTS AFTER THE BALANCE SHEET DATE

The ANDRITZ GROUP has acquired an 80% stake in Shanghai Shende Machinery Co. Ltd., a renowned supplier of technologies and systems for feed and biomass pelleting.

The company generates annual sales of approximately 20 MEUR and was acquired for a purchase price of 9.7 MEUR, which was paid in cash.

Shanghai Shende Machinery supplies process technologies including the entire equipment and service portfolio for mid-size capacity animal/aquatic feed and biomass pelleting plants. With this acquisition, the FEED & BIOFUEL business area is strengthening its product and service portfolio and further enhancing its position in the growth markets of China and other Asian countries.

The purchase price allocation has not been completed, because the valuation is currently being calculated.

In February 2013, the takeover of the majority interest in Schuler AG has received full and unrestricted approval from the anti-trust authorities responsible. The closing took place with the assignment of the shares on February 14, 2013. At the copy deadline for this financial report on February 21, 2013, ANDRITZ GROUP owned more than 90% of the shares in Schuler AG.

The purchase price allocation has not been completed, because of the copy deadline for this financial report on February 21, 2013 the valuation was still being calculated.

The first-time consolidation of Schuler in the ANDRITZ consolidated financial statements will take place from March 1, 2013. The purchase price in the amount of 560.6 MEUR was paid in cash.

As the technological and global market leader in metalforming, Schuler supplies machines, production lines, dies, process know-how, and services for the entire metalworking industry. With this acquisition, ANDRITZ is expanding its product and service portfolio in the METALS business area.

**Q) LIST OF SUBSIDIARIES**

<i>Company</i>	<b>Headquarters</b>	<b>Interest</b>	<b>Type of consolidation</b>
Anstalt für Strömungsmaschinen GmbH	Graz, Austria	100.00%	NC
ANDRITZ Technology and Asset Management GmbH	Graz, Austria	100.00%	FC
ANDRITZ Finance GmbH	Vienna, Austria	100.00%	FC
ANDRITZ Power & Water GmbH	Vienna, Austria	100.00%	FC
AFB Holding GmbH	Graz, Austria	100.00%	FC
ANDRITZ FEED & BIOFUEL (China) Ltd.	Foshan, China	100.00%	FC
ANDRITZ Energy & Environment GmbH	Raaba, Austria	100.00%	FC
AE&E Environmental Engineering (Shanghai) Co Ltd.	Shanghai, China	100.00%	FC
AE Energietechnik GmbH	Raaba, Austria	100.00%	NC
European Mill Service GmbH	Graz, Austria	50.00%	NC
ANDRITZ Deutschland Beteiligungs GmbH	Krefeld, Germany	100.00%	FC
ANDRITZ Ritz Immobilien GmbH	Krefeld, Germany	100.00%	FC
TANIAM GmbH & Co. KG	Pullach im Isartal, Germany	100.00%	FC
ANDRITZ GmbH	Hemer, Germany	100.00%	FC
ANDRITZ Kaiser GmbH	Bretten-Gölshausen, Germany	100.00%	FC
ANDRITZ Sundwig GmbH	Hemer, Germany	100.00%	FC
ANDRITZ Fiedler GmbH	Regensburg, Germany	100.00%	FC
ANDRITZ SEPARATION GmbH	Cologne, Germany	100.00%	FC
ANDRITZ s.r.o.	Spišská Nová Ves, Slovakia	100.00%	FC
ANDRITZ Fließbett Systeme GmbH	Ravensburg, Germany	100.00%	FC
Lenser Verwaltungs GmbH	Senden, Germany	100.00%	FC
ANDRITZ S.R.L.	Cisnădie, Romania	100.00%	NC
Lenser Filtration GmbH	Senden, Germany	100.00%	FC
Lenser Asia Sdn. Bhd.	Kuala Lumpur, Malaysia	100.00%	FC
ANDRITZ HYDRO GmbH	Ravensburg, Germany	100.00%	FC
ANDRITZ Küsters GmbH	Krefeld, Germany	100.00%	FC
ANDRITZ Kufferath GmbH	Düren, Germany	100.00%	FC
AKRE Real Estate GmbH	Düren, Germany	100.00%	FC
ANDRITZ MAERZ GmbH	Düsseldorf, Germany	100.00%	FC
Modul Systeme Engineering AG	Laufen, Germany	50.00%	NC
Modul Systeme Projekt Verwaltungs GmbH	Laufen, Germany	50.00%	NC
Modul Systeme Projekt GmbH & CO. KG	Laufen, Germany	50.00%	NC
Modul Seeger Verwaltungs GmbH	Laufen, Germany	25.00%	NC
Springer Maschinen-und Reparatur-Service GmbH	Springe, Germany	50.00%	NC
ANDRITZ KMPT GmbH	Vierkirchen, Germany	100.00%	FC
ANDRITZ KMPT Inc.	Florence / Kentucky, USA	100.00%	FC
ANDRITZ Ritz GmbH	Schwäbisch Gmünd, Germany	100.00%	FC
ANDRITZ Atro GmbH	Nürnberg, Germany	100.00%	FC
ANDRITZ Ritz Pte Ltd.	Singapore, Singapore	100.00%	FC
Ritz Pumps South Africa (Pty) Ltd.	Boksburg, South Africa	23.00%	NC
Ritz Verwaltungs GmbH	Schwäbisch Gmünd, Germany	100.00%	NC
ANDRITZ Beteiligungsgesellschaft III GmbH	Krefeld, Germany	100.00%	NC
ANDRITZ HYDRO GmbH	Vienna, Austria	100.00%	FC
ANDRITZ HYDRO S.A.S.	Grenoble, France	100.00%	FC
ANDRITZ HYDRO Private Limited	Bhopal, India	100.00%	FC
ANDRITZ HYDRO S.L.	Madrid, Spain	100.00%	FC
ANDRITZ HYDRO S.r.l., Unipersonale	Vicenza, Italy	100.00%	FC
ANDRITZ HYDRO AG	Kriens, Switzerland	100.00%	FC
ANDRITZ HYDRO S.A. de C.V.	Morelia, Mexico	100.00%	FC
ANDRITZ HYDRO AS	Jevnaker, Norway	100.00%	FC
ANDRITZ HYDRO S.A.	El Dorado, Panama	100.00%	NC
ANDRITZ HYDRO BRASIL Ltda.	São Paulo, Brazil	100.00%	FC
ANDRITZ HYDRO Ltd. Sti.	Ankara, Turkey	100.00%	FC

Company	Headquarters	Interest	Type of consolidation
PT. ANDRITZ HYDRO	Jakarta, Indonesia	51.00%	FC
ANDRITZ HYDRO S.A.	Lima, Peru	100.00%	NC
ANDRITZ HYDRO (Pty) Ltd	Kyalami, South Africa	100.00%	NC
ANDRITZ HYDRO Ltda.	Bogotá, Colombia	100.00%	FC
ANDRITZ HYDRO s.r.o.	Prague, Czech Republic	100.00%	NC
ANDRITZ India Private Limited	New Delhi, India	100.00%	NC
ANDRITZ HYDRO C.A.	Caracas, Venezuela	100.00%	NC
ANDRITZ Power Sdn. Bhd.	Kuala Lumpur, Malaysia	30.00%	FC
ANDRITZ HYDRO INC.	Makati City, Philippines	100.00%	NC
ANDRITZ Ulu Jelai Project Sdn. Bhd, Malaysia	Kuala Lumpur, Malaysia	100.00%	NC
PHP Philipinen Hydro Project, Inc.	Makati City, Philippines	25.00%	NC
ANDRITZ HYDRO Hammerfest AS	Hammerfest, Norway	59.43%	FC
ANDRITZ HYDRO Hammerfest (UK) Limited	Glasgow, United Kingdom	59.43%	FC
VA TECH Escher Wyss Peru S.A.C.	Lima, Peru	100.00%	NC
ANDRITZ HYDRO UNIPESOAL LDA	Porto, Portugal	100.00%	NC
HGI Holdings Limited	Limassol, Cyprus	100.00%	NC
ZAO HGI PCS	St. Petersburg, Russia	75.00%	NC
ANDRITZ SEPARATION (India) Private Ltd.	Chennai, India	100.00%	FC
ACB Entwicklungsgesellschaft mbH	Vienna, Austria	73.00%	NC
ANDRITZ FEED & BIOFUEL A/S	Esbjerg, Denmark	100.00%	FC
ANDRITZ FEED & BIOFUEL Brasil Ltda.	Curitiba, Brazil	100.00%	NC
ANDRITZ FEED & BIOFUEL s.r.o.	Humenné, Slovakia	100.00%	NC
ANDRITZ Chile Ltda.	Santiago de Chile, Chile	100.00%	FC
ANDRITZ (USA) Inc.	Roswell / Georgia, USA	100.00%	FC
ANDRITZ Inc.	Roswell / Georgia, USA	100.00%	FC
ANDRITZ Finance Inc.	Tualatin / Oregon, USA	100.00%	FC
Precision Machine and Supply, Inc.	Spokane / Washington, USA	51.00%	FC
Delta Holding Corporation	Tualatin / Oregon, USA	100.00%	FC
ANDRITZ SEPARATION Inc.	Arlington / Texas, USA	100.00%	FC
ANDRITZ AUTOMATION Inc.	Decatur / Georgia, USA	100.00%	FC
ANDRITZ HYDRO Corp.	Charlotte / North Carolina, USA	100.00%	FC
ANDRITZ Bricmont Inc.	Canonsburg / Pennsylvania, USA	100.00%	FC
ANDRITZ Environmental Solutions Inc.	Wilmington / Delaware, USA	100.00%	FC
ANDRITZ S.A.S.	Vélizy-Villacoublay, France	100.00%	FC
ANDRITZ Selas S.A.S.	Asnières-sur-Seine, France	100.00%	FC
Lenser Filtration S.A.R.L.	Hagenau, France	100.00%	FC
Jaybee Eng. (Holdings) Pty. Ltd.	Carrum Downs / Victoria, Australia	100.00%	FC
ANDRITZ Pty. Ltd.	Carrum Downs / Victoria, Australia	100.00%	FC
ANDRITZ Ingeniería S.A.	Madrid, Spain	100.00%	FC
ANDRITZ Brasil Ltda.	Curitiba, Brazil	100.00%	FC
ANDRITZ SEPARATION Industria e Comércio de Equipamentos de Filtração Ltda.	Pomerode, Brazil	100.00%	FC
Sindus ANDRITZ Ltda.	Porto Alegre, Brazil	100.00%	FC
Sindus ANDRITZ Uruguay S.A.	Río Negro, Uruguay	100.00%	NC
ANDRITZ HYDRO Inepar do Brasil S.A	Araraquara, Brazil	50.00%	FC
ANDRITZ Pilão Equipamentos Ltda.	São Paulo, Brazil	100.00%	FC
ANDRITZ Oy	Helsinki, Finland	100.00%	FC
Savonlinna Works Oy	Savonlinna, Finland	100.00%	FC
ANDRITZ Hydro Oy	Tampere, Finland	100.00%	FC
Warkaus Works Oy	Varkaus, Finland	50.00%	EQ
Enmas ANDRITZ Pvt. Ltd.	Chennai, India	40.00%	EQ
Carbona Oy	Helsinki, Finland	80.00%	NC
Viafin Brazil Oy	Teuva, Finland	40.00%	EQ

<i>Company</i>	<b>Headquarters</b>	<b>Interest</b>	<b>Type of consolidation</b>
A&V Montagens INDUSTRIAIS Ltda.	Lapa, Brazil	40.00%	EQ
ANDRITZ HYDRO Canada Inc.	Peterborough / Ontario, Canada	100.00%	FC
ANDRITZ HYDRO Ltd./Ltée.	Pointe-Claire / Quebec, Canada	100.00%	FC
ANDRITZ HYDRO Installations Inc.	Lachine / Quebec, Canada	100.00%	NC
ANDRITZ Ltd./Ltée.	Lachine / Quebec, Canada	100.00%	FC
ANDRITZ Paper Machinery Ltd.	Lachine / Quebec, Canada	100.00%	FC
Universal Dynamics Group Ltd.	Richmond / British Columbia, Canada	100.00%	FC
ANDRITZ Automation Ltd.	Richmond / British Columbia, Canada	100.00%	FC
IDEAS Simulation & Control Ltd.	Richmond / British Columbia, Canada	100.00%	FC
Universal Dynamics Group (USA) Ltd.	Richmond / British Columbia, Canada	100.00%	FC
Universal Dynamics America Corp.	Bellingham / Washington, USA	100.00%	FC
Hemi Controls Inc.	Chambly / Quebec, Canada	100.00%	FC
ANDRITZ AB	Örnsköldsvik / Växjö, Sweden	100.00%	FC
ANDRITZ HYDRO AB	Näliden, Sweden	100.00%	FC
ANDRITZ Ltd.	Newcastle-under-Lyme, United Kingdom	100.00%	FC
ANDRITZ (China) Ltd.	Foshan, China	100.00%	FC
ANDRITZ - Wolfensberger Special Alloy Foundry Co. Ltd.	Foshan, China	95.00%	FC
ANDRITZ Technologies H.K. Ltd.	Hong Kong, China	100.00%	FC
ANDRITZ Thermtec Holding B.V.	Rotterdam, The Netherlands	100.00%	FC
ANDRITZ Thermtec B.V.	Rotterdam, The Netherlands	100.00%	FC
ANDRITZ Technologies Pvt. Ltd.	Bangalore, India	100.00%	FC
ANDRITZ FEED & BIOFUEL Ltd.	Hull, United Kingdom	100.00%	FC
ANDRITZ FEED & BIOFUEL B.V.	Geldrop, The Netherlands	100.00%	FC
ANDRITZ B.V.	Den Helder, The Netherlands	100.00%	FC
ANDRITZ 3SYS AG	Henschiken, Switzerland	100.00%	FC
ANDRITZ Singapore Pte. Ltd.	Singapore, Singapore	100.00%	FC
ANDRITZ (Thailand) Ltd.	Bangkok, Thailand	100.00%	NC
ANDRITZ Uruguay S. A.	Fray Bentos, Uruguay	100.00%	FC
ANDRITZ Industrias S. A.	Río Negro, Uruguay	100.00%	NC
ANDRITZ Pulp Technologies Punta Pereira S.A.	Montevideo, Uruguay	100.00%	FC
ANDRITZ K.K.	Tokyo, Japan	100.00%	FC
ANDRITZ (Pty) Ltd.	Kyalami, South Africa	100.00%	NC
ANDRITZ DELKOR (Pty) Ltd.	Kyalami, South Africa	100.00%	FC
GKD Delkor (Pty) Ltd.	Kyalami, South Africa	100.00%	NC
PT. ANDRITZ	Jakarta, Indonesia	100.00%	FC
ANDRITZ Australia Pty Ltd.	Melbourne / Victoria, Australia	100.00%	NC
LLC ANDRITZ	St. Petersburg, Russia	100.00%	FC
LLC ANDRITZ HYDRO	Moscow, Russia	100.00%	NC
ANDRITZ Kufferath s.r.o.	Levice, Slovakia	100.00%	FC
ANDRITZ Kft.	Tiszakécske, Hungary	100.00%	FC
ANDRITZ Perfojet S.A.S.	Grenoble, France	100.00%	FC
ANDRITZ Biax S.A.S.	Le Bourget du Lac, France	100.00%	FC
ANDRITZ Biax GmbH	Graz, Austria	100.00%	NC
ANDRITZ Frautech S.R.L.	Vicenza, Italy	100.00%	FC
ProGENF IP GmbH	Wolfsburg, Germany	30.00%	NC
ANDRITZ Como S.R.L.	Grandate, Italy	100.00%	NC
ANDRITZ Iggesund Tools AB	Iggesund, Sweden	100.00%	FC
ANDRITZ Iggesund Tools, Inc.	Oldsmar / Florida, USA	100.00%	FC
ANDRITZ Iggesund Tools Canada Inc.	Laval / Quebec, Canada	100.00%	FC



<i>Company</i>	<b>Headquarters</b>	<b>Interest</b>	<b>Type of consolidation</b>
ANDRITZ Boisfer Iggesund S.A.S.	Miribel, France	100.00%	FC
Iggesund Tools Deutschland GmbH	Burgsinn, Germany	100.00%	NC
ANDRITZ Iggesund Tools Oy	Helsinki, Finland	100.00%	NC
ANDRITZ Iggesund Tools Australia Pty. Ltd.	Carrum Downs, Australia	100.00%	NC
ANDRITZ (NZ) Ltd.	Tauranga, New Zealand	100.00%	NC
ANDRITZ Asselin-Thibeau S.A.S.	Elbeuf, France	100.00%	FC
ANDRITZ Beteiligungsgesellschaft IV GmbH	Krefeld, Germany	100.00%	FC
ANDRITZ (Wuxi) Nonwoven Technology Co. Ltd.	Wuxi, China	100.00%	FC
Soutec AG	Neftenbach, Switzerland	100.00%	FC
Soutec Shanghai Ltd.	Shanghai, China	100.00%	NC
Soutec Ltd	Farmington Hills / Michigan, USA	100.00%	NC
Beheermaatschappij "G.M.F." B.V.	Waddinxveen, The Netherlands	100.00%	NC
Goudsche Machinefabriek B.V.	Waddinxveen, The Netherlands	100.00%	FC
Vastgoedmaatschappij "G.M.F." B.V.	Waddinxveen, The Netherlands	100.00%	NC
Royal GMF-Gouda Singapore Pte Ltd.	Singapore, Singapore	100.00%	NC
GMF-Gouda America Inc.	Weatherby Lake / Missouri, USA	100.00%	NC
S.A.S.J.E. Duprat & Cie	La Roche Blanche, France	100.00%	NC
Royal GMF-Gouda Germany GmbH	Ratingen, Germany	100.00%	NC
GMF-Gouda China Co Ltd.	Beijing, China	100.00%	NC
Larvik Cell Holding AS	Jevnaker, Norway	100.00%	NC

FC ... Full consolidation

EQ ... Equity consolidation

NC ... Not consolidated because of materiality

Graz, February 21, 2013

Wolfgang Leitner m.p.  
(President and CEO)

Karl Hornhofer m.p.

Humbert Köfler m.p.

Friedrich Papst m.p.

Wolfgang Semper m.p.

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Produced in-house using FIRE.sys

### **The ANDRITZ annual report 2012**

In their annual reports, companies generally write about themselves. However, this time we decided to ask external authors to write about ANDRITZ. An outsider's point of view can often provide new and perhaps also slightly different perspectives compared with a view from within the company. With this change of perspective, we hope that you will learn plenty of interesting facts about our customers, our markets, and the development of the ANDRITZ GROUP in the 2012 business year. Online and pdf versions of the annual report 2012 are available in the internet at [reports.andritz.com/2012/](http://reports.andritz.com/2012/) – or e-mail us at [investors@andritz.com](mailto:investors@andritz.com) to request a printed copy free of charge.

### **[www.andritz.com](http://www.andritz.com)**

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 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.

### **Disclaimer**

Certain statements contained in the annual report 2012 and in the annual financial report 2012 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 2012 and the annual financial report 2012 contain assumptions and forecasts which were based on the information available up to the copy deadline on February 21, 2013. If the premises for these assumptions and forecasts do not occur, or risks indicated in the chapter "corporate risks" and in the management report in the annual financial report 2012 do arise, actual results may vary from the forecasts made in the annual report 2012 and in the annual financial report 2012. Although the greatest caution was exercised in preparing data, all information related to the future is provided without guarantee.

