CONSOLIDATED FINANCIAL STATEMENTS 2004 OF THE ANDRITZ GROUP ACCORDING TO IFRS

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated financial statements of Andritz AG and subsidiaries as of December 31, 2004 prepared in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board. These group financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these group financial statements based on our audit. The audits of the annual accounts of Group subsidiaries were partly carried out by other auditors. As far as these subsidiaries are concerned, our opinion is based solely on the report of the other auditors.

We conducted our audit in accordance with International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

We certify that the status report is in compliance with the consolidated financial statements and that the legal requirement for the exemption from the obligation to prepare consolidated financial statements in accordance with the Austrian Commercial Code are met.

Vienna, February 18, 2005

AUDITOR TREUHAND GMBH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Alfons STIMPFL-ABELE Walter MÜLLER
(Austrian) Certified Public Accountants

AUDITOR TREUHAND GMBH is a member of
Deloitte.

In case that the consolidated financial statements are disclosed or handed over to a third party in a version which differs from that certified by us, our prior approval is necessary if our audit opinion is included or our audit is mentioned.

CONSOLIDATED BALANCE SHEET

as of December 31, 2004 and 2003

	Notes	2004 (in TEUR)	2003 (in TEUR)
Assets			
Intangible assets		7,061	4,921
Goodwill		107,561	122,785
Property, plant and equipment		125,390	127,165
Shares in associated companies		2,102	3,022
Investments		12,321	2,340
Fixed and financial assets	**1.**	**254,435**	**260,233**
Deferred tax assets	**18.**	**21,854**	**18,876**
Inventories	**2.**	139,972	107,714
Advance payments made	**3.**	14,142	17,334
Trade accounts receivable	**4.**	201,763	216,702
Cost and earnings of projects under construction in excess of billings	**5.**	115,950	107,738
Other receivables	**6.**	63,314	60,510
Prepayments and deferred charges		4,920	4,224
Marketable securities		63,097	52,705
Cash and cash equivalents		273,939	120,876
Current assets		**877,097**	**687,803**
Total assets		**1,153,386**	**966,912**
Shareholders' equity and liabilities			
Share capital		94,510	94,510
Capital reserves		45,966	45,966
Retained earnings		129,436	92,008
Shareholders' equity		**269,912**	**232,484**
Minority interests		**7,169**	**6,616**
Bonds		100,000	100,000
Bank loans - non current		5,211	4,486
Provisions - non current	**9.**	77,800	72,969
Obligation under finance leases - non current		582	919
Non-current liabilities	**11.**	**183,593**	**178,374**
Liabilities for deferred taxes	**18.**	**58,693**	**50,546**
Bank loans - current		11,207	11,104
Obligations under finance leases - current		421	484
Bills of exchange		0	1,550
Trade accounts payable		132,970	104,580
Billings in excess of cost and earnings of projects under construction	**5.**	197,832	107,399
Advance payments received		49,564	30,765
Provisions - current	**9.**	81,823	77,459
Liabilities for current taxes		10,368	16,670
Other current liabilities	**12.**	149,834	148,881
Current liabilities		**634,019**	**498,892**
Total Shareholders' equity and liabilities		**1,153,386**	**966,912**

The following notes to the consolidated financial statements form an integral part of this consolidated balance sheet.

CONSOLIDATED INCOME STATEMENT

for the years ended December 31, 2004 and 2003

	Notes	2004 (in TEUR)	2003 (in TEUR)
Sales	**13.**	**1,481,347**	**1,224,990**
Changes in inventories of finished goods and work in progress		10,996	(3,517)
Capitalized cost of self-constructed assets		468	156
		1,492,811	1,221,629
Other operating income	**14.**	20,799	20,099
Cost of materials		(866,263)	(676,133)
Personnel expenses	**15.**	(322,706)	(304,797)
Other operating expenses	**16.**	(209,283)	(176,428)
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**115,358**	**84,370**
Depreciation and amortization (without amortization of goodwill)		(22,539)	(21,237)
Earnings before interest, taxes and amortization of goodwill (EBITA)		**92,819**	**63,133**
Amortization of goodwill		(16,684)	(14,201)
Earnings before interest and taxes (EBIT)		**76,135**	**48,932**
Income/Expense from associated companies		(1,543)	(419)
Interest result		1,979	1,006
Other income from financing activities		657	(201)
Financial results	**17.**	**1,093**	**386**
Earnings before taxes (EBT)		**77,228**	**49,318**
Income taxes	**18.**	(22,830)	(18,801)
Net income		**54,398**	**30,517**
Share of profit due to minority interests		(1,027)	(1,389)
Net income excluding minority interests		**53,371**	**29,128**
Earnings per non par value share (in EUR)	**19.**	4.13	2.26
Proposed or paid dividend per non par value share (in EUR)		1.40	1.00
Weighted average number of non par value shares		12,917,037	12,871,600

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

CONSOLIDATED CASH FLOW STATEMENT

for the years ended December 31, 2004 and 2003

	2004 (in TEUR)	2003 (in TEUR)
Earnings before taxes (EBT)	**77,228**	**49,318**
Interest result	(1,979)	(1,006)
Depreciation, write-ups and amortization of fixed assets	38,922	35,410
Income/Expenses from investments in associated companies	1,543	419
Changes in accrued expenses	2,549	8,725
Results from the sale of fixed and financial assets	(3,359)	(62)
Other non-cash income/expenses	(2,566)	0
Taxes paid	(19,973)	(10,207)
Interest received	8,356	5,973
Interest paid	(6,397)	(5,992)
Gross cash flow	**94,324**	**82,578**
Changes in inventories	(17,659)	5,213
Changes in advance payments made	3,338	(14,175)
Changes in receivables, prepayments and deferred charges	22,298	(85,569)
Changes in short-term provisions and accruals	(3,169)	(5,837)
Changes in advance payments received	11,803	455
Changes in liabilities and deferred income	97,087	21,934
Cash flow from operating activities	**208,022**	**4,599**
Payments received for asset disposals	11,523	3,242
Payments made for investments in fixed tangible and intangible assets	(24,002)	(20,662)
Payments made for investments in financial assets	(9,750)	(167)
Cash flow due to purchase of minority interests and business aquistions	(5,215)	(13,943)
Payments made for short-term financial investments	(10,079)	(24,076)
Cash flow from investing activities	**(37,523)**	**(55,606)**
Changes in interest bearing borrowings	(3,642)	(311)
Dividends paid by Andritz AG	(12,889)	(11,543)
Dividends paid to minority shareholders	(372)	(659)
Payments concerning own shares	1,328	(844)
Payments made by associated companies	0	27
Cash flow from financing activities	**(15,575)**	**(13,330)**
Change in cash and cash equivalents	**154,924**	**(64,337)**
Changes in cash and cash equivalents resulting from exchange rate fluctuations	(1,861)	(2,916)
Cash and cash equivalents at the beginning of the period	**120,876**	**188,129**
Cash and cash equivalents at the end of the period	**273,939**	**120,876**

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

for the years ended December 31, 2004 and 2003

(in TEUR)	Notes	Share capital	Capital reserves	Retained earnings	IAS 39 reserve	Currency translation adjustments	Total
Status as at 1 January 2003		**94,510**	**45,966**	**83,917**	**8,601**	**(10,057)**	**222,937**
Net income excluding minority interests				29,128			29,128
Dividend payments				(11,543)			(11,543)
Currency translation adjustments						(17,617)	(17,617)
Acquisition of own shares				(331)			(331)
Changes to IAS 39 reserve					9,910		9,910
Status as at 31 December 2003		**94,510**	**45,966**	**101,171**	**18,511**	**(27,674)**	**232,484**
Status as at 1 January 2004		**94,510**	**45,966**	**101,171**	**18,511**	**(27,674)**	**232,484**
Net income excluding minority interests				53,371			53,371
Dividend payments	**8.**			(12,889)			(12,889)
Currency translation adjustments	**8.**					(7,197)	(7,197)
Changes concerning own shares				1,583			1,583
Changes to IAS 39 reserve					2,138		2,138
Other changes				422			422
Status as at 31 December 2004		**94,510**	**45,966**	**143,658**	**20,649**	**(34,871)**	**269,912**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as of December 31, 2004 and 2003

A. General

Andritz AG ("Andritz") is incorporated under the laws of the Republic of Austria and is listed on the Vienna Stock Exchange since June 2001. The Andritz Group (the "Group") is a leading producer of high technology industrial machinery and operates in four main strategic business areas: Pulp and Paper, Rolling Mills and Strip Processing Lines, Environment and Process, and Feed Technology.

The average number of employees in the Group was 5,026 in 2004 and 4,597 in 2003. The registered office address of the Group is located at Stattegger Strasse 18, 8045 Graz, Austria.

The consolidated financial statements are the responsibility of the management and will be acknowledged by the Supervisory Board.

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

B. Summary of significant Accounting Policies

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

a. General

The financial statements are prepared in accordance with the standards formulated by the International Accounting Standards Board (IASB) as well as the interpretations formulated by the International Financial Reporting Interpretations Committee (IFRIC). IFRS 2 Share-based Payment has been applied.

For these financial statements prepared in accordance with IFRS based on § 245a of Austrian Commercial Code the legal requirements are met for the exemption of the obligation of preparing group financial statements.

b. Reporting Currency

The Group financial statements are prepared in EURO.

c. Principles of Consolidation

The consolidated financial statements of the Group include Andritz and the companies that it controls. This control is normally evidenced when Andritz owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is 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 minority shareholders' interests are shown separately in the balance sheets and income statements, respectively.

The purchase method of accounting is used for acquired businesses. Companies acquired or disposed of during the year are included or excluded, accordingly, in the consolidated financial statements from the date of acquisition or from the date of disposal. Joint ventures with equal voting rights are consolidated on a proportionate basis.

d. Major Differences between Austrian and IFRS Accounting Principles

Goodwill: In accordance with IAS 22, goodwill from capital consolidation is capitalized and amortized over the useful life. Any goodwill arising from business combinations on or after 31st March 2004 will be treated in accordance with IFRS 3. The Austrian Commercial Code allows a credit to reserves, with no effect on the income statement.

Construction contracts: According to Austrian accounting regulations, sales and profits are first realised upon takeover by the customer ("completed contract method"). Under IAS 11, order completion is accounted using the percentage of completion method in accordance with progress and pro rata profit realisation. The extent of completion is established by considering the ratio of accumulated costs to estimated total costs to complete each contract ("cost-to-cost method").

Deferred taxes: The Austrian Commercial Code requires the creation of deferred tax provisions for temporary differences if a tax liability is expected to arise when these differences are reversed. IFRS require the creation of deferred taxes for all temporary differences, which arise between financial statements prepared for tax purposes and IFRS financial statements, measured at actual or enacted tax rates. Deferred tax assets must also be recorded for unused loss carry forwards and unused tax credits, which are expected to be offset against taxable profits in the future.

Other provisions: In contrast to the Austrian Commercial Code, IFRS interprets the principle of prudence differently with respect to provisions. IFRS tends to place stricter requirements on the probability of an event occurring and on estimating the amount of the provisions. According to Austrian Commercial Code certain amounts reported as liabilities under IFRS would be normally shown as provisions.

Provisions for pensions: In keeping with the Austrian Commercial Code, provisions for pensions are calculated by an actuary. Under IFRS, provisions for pensions are calculated using the projected unit credit method, based on a discount rate determined by reference to market yields on high quality corporate bonds and an expected compensation increase.

Marketable securities: Austrian accounting principles require securities to be recorded at the lower of acquisition costs or market value. Under IFRS marketable securities available for sale are to be valued at fair values, and there is a choice for the treatment of changes in the fair value.

Foreign currency transactions: These two accounting systems require different treatments for unrealized profits arising from the valuation of foreign exchange items as of the balance sheet date. According to Austrian law, only unrealized losses are recorded, whereas IFRS also requires the recognition of unrealized profits of monetary items.

Non-current securities: In accordance with IFRS 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. The Austrian Commercial Code requires a valuation at acquisition costs or a lower market value if there is a sustainable decrease of monetary items.

Hedging: With the adoption of IAS 39, the Group has designated its forward exchange contracts as cash flow hedges and carries them at fair value. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash-flow hedge are recognized directly in the hedging reserve in shareholders' equity. The Austrian Commercial Code does not require a valuation of hedging contracts at fair value as of the balance sheet date.

C. Acquisitions

In January 2004, the Company acquired certain assets of Bird Machine Company business from the US-based Baker Hughes Incorporated. Bird Machine is a global specialist in solid/liquid separation for industrial and municipal applications utilizing a broad range of centrifuges and filter presses. In August 2004, Andritz completed the acquisition of the Filtration Business Unit from international Netzsch Group, based in Germany. The Netzsch Filtration Business Unit supplies different types of dewatering units, in particular filter presses, for solid/liquid separation in industrial und municipal applications. The acquisition of the Fluidized Bed Drying Systems Business Area of VA TECH WABAG, Germany was completed in November 2004. Based in Ravensburg, Germany, the globally active Fluidized Bed Drying Systems Business Area is specialized in the development, production and erection of plants for granulation and drying of solutions, suspensions, and bulk materials. The total costs for these three acquisitions amounted to EUR 3,520 thousand of which Euro 1,366 thousand have been allocated to patents and know-how and the remaining goodwill amounted to EUR 1,344 thousand. The described acquisitions are all part of the Environment and Process Business Area.

In August 2004 the company acquired in the Pulp and Paper Business Area 51.1% of the shares of CyberMetrics Inc. in the USA, a specialist in on-line measurement of pulp quality and the remaining 50% of Voith Andritz Tissue L.L.C. in November 2004. The total costs of these acquisitions amounted to EUR 247 thousand with a related goodwill of EUR 1.080 thousand.

To expand the product portfolio in the Rolling Mills and Strip Processing Lines Business Area, Andritz has purchased certain assets and know-how of insolvent Otto Kaiser GmbH in Germany, a manufacturer of high-performance mechanical presses for steel strip. This transaction took place in September 2004. The total costs for these assets were EUR 3,987 thousand.

The acquired businesses have contributed EUR 95,257 thousand to sales and EUR 3,496 thousand to Earnings Before Interest, Taxes and Amortization of Goodwill (EBITA) of the Andritz Group since the date of acquisition. If the acquisitions had been at the beginning of the reporting period the Group's EBITA would have been EUR 96,738 thousand and the revenue from continuing operations would have been EUR 1,545,202 thousand.

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

D. Accounting and Valuation Principles

a. Intangible Assets

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

Concessions, industrial rights and similar rights and values

Amounts paid for concessions, industrial rights and similar rights and values are capitalized and then amortized on a straight-line basis over the expected periods of benefit. The expected useful lives vary from 3 to 15 years.

Business Combinations and Goodwill

For business combinations occurring on or after 31 March 2004, IFRS 3 has been applied. According to this standard goodwill is measured as the residual cost of the business combination after recognizing the acquiree's identifiable, assets, liabilities and contingent liabilities. Any goodwill arising from business combinations is not amortized. Goodwill is tested for impairment in accordance with IAS 36 annually, or more frequently if events or changes in circumstances indicate that it might be impaired. In determining whether an impairment write-down is required, goodwill is allocated to the cash-generating units that are expected to benefit from the synergies of the combination and the recoverable amount is compared with its carrying amount.

After reassessment of the identification and the measurement of the acquirees's identifiable assets, liabilities and contingent liabilities and the measurement of cost of the combination, any negative goodwill is recognized in profit or loss immediately.

For any goodwill arising from business combinations effected before 31 March 2004 IFRS 3 has not been applied for the business year ended 31 December 2004. Goodwill arising from these combinations is carried at cost less accumulated amortization and accumulated impairment losses. The amortization is calculated on a straight-line basis over its useful life. The amortization period ranges from 7 to 15 years. The un-amortized balances are reviewed at each balance sheet date by assessing the probability of continuing future benefits. If there is an indication that goodwill may be impaired, the recoverable amount is determined for the cash-generating unit to which the goodwill belongs. If the carrying amount is higher than the recoverable amount, an impairment loss is recognized. Beginning with the business year 2005 according to transitional provisions of IFRS 3 the amortization will be discontinued and the carrying amount of accumulated depreciation will be eliminated against the carrying amount of goodwill. The impairment tests according to IAS 36 will be performed annually.

Goodwill and negative goodwill arising from business combinations effected before 1 January 1995 were charged or credited directly to equity.

b. Property, Plant and Equipment

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

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

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

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

c. Financial Assets and Investments in Associated Companies

These long-term investments consist primarily of shares in associated companies and non-current securities. Investments in associated companies (generally investments of between 20 to 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 investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist.

Other non-current securities held on a long-term basis are classified as available-for-sale investments and valued at fair value. Changes of these fair values are recognized as gains or losses in the income statement.

d. Finished Goods, Work in Progress, Raw Materials

Inventories, including work in progress, are valued at the lower of cost and net realizable value, after provision for obsolete and slow moving items. Net realizable value is the selling price in the ordinary course of business, less the 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 has been fully written off. Contracts other than construction contracts are valued at production costs. For these contracts the revenue is recognized when the ownership of the goods is transferred ("completed contract method").

e. Construction Contracts

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

f. Trade Accounts Receiveable

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

g. Marketable Securities

Marketable securities consist of governmental bonds and bonds of first-class banks that are traded in liquid markets. They are held for the purpose of investing in liquid funds and are not generally intended to be retained on a long-term basis. Marketable securities are stated at the market value. Adjustments in valuation are included in the income statement. Interest received on trading securities is reported as interest income. On a disposal of an investment, the difference between the net disposal proceeds and the carrying amount is included in the income statement.

h. Cash and Cash Equivalents

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

i. Share Capital

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

The share capital of Andritz AG amounts to EUR 94,510,000 divided into 13,000,000 shares of non par value. Based on the articles of association and with approval of the Supervisory Board, the Managing Board is authorized to increase the capital by up to EUR 25,445,000 through issuing up to 3,500,000 shares until 15 September 2005.

Based on the authorization of the shareholders' meeting and with approval from the Supervisory Board the Managing Board has decided a program for acquisition of own shares up to 650,000 shares between 16 May 2002 and 27 June 2003 within a price range of 10 to 35 Euro per share and extension of this program for acquisition of own shares up to 650,000 shares between 28 June 2003 and 27 June 2004 within a price range of 10 to 30 Euro. The program was cancelled at 30 March 2004. Based on a new authorization of the shareholders' meeting, held on 30 March 2004, and with approval from the Supervisory Board the Managing Board has decided a program for acquisition of own shares up to 1,300,000 shares between 5 April 2004 and 29 September 2005 within a price range of a lowest price of 10.00 Euro and a highest price, which must not exceed the average un-weighted closing price over the ten preceding trading days by more than 30%. In 2003 128,701 own shares have been acquired in several steps with an average price of EUR 22.75 per share and 94,600 own shares were resold in several steps with an average price of 27.44 per share. 50 own shares were used as a price in a lottery. At 31 December 2003 the Company held 110,948 own shares at a market value of EUR 4,210 thousand. In 2004 2,000 own shares have been acquired with an average price of EUR 36.93 per share and 66,750 own shares were resold with a price of EUR 21.00 per share to eligible executives of the Management Share Option Plan. 5,788 own shares have been transferred to employees of Andritz AG in the course of an employee participation program. At 31 December 2004 the Company held 40,410 own shares at a market value of EUR 2,267 thousand. It is planned to use these shares for delivery of shares within the framework of the Management Share Option Plan.

j. Capital Reserves

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

k. Provisions

A provision is recognized when, and only when, an 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 material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

I. Other Accounting and Valuation Principles

Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, long-term receivables, borrowings and investments. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in these notes.

Financial instruments are classified as assets or liabilities in accordance with the substance of the contractual arrangement. Therefore interest, dividends, gains and losses relating to these financial instruments classified as an asset or a liability are reported as expense or income. 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.

Hedging

The Group uses forward exchange contracts to mitigate exposure to foreign currency risk out of projects and regular business in foreign currency. According to the Group's hedging policy most forward contracts are used for highly probable future cash flows for these projects or regular sales and can therefore be classified as cash flow hedges. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized directly in the hedging reserve in shareholders' equity. If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in equity are transferred from equity and included in the initial measurement of the cost or carrying value of the asset or liability. Otherwise, for all other cash flow hedges, gains and losses initially recognized in equity are transferred from hedging 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. If a forward exchange contract is not classified as cash flow hedge the fair values respectively any changes of these contracts are reported as profit or loss in the income statement.

When the committed or forecast transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is transferred to the income statement.

All investments in a foreign entity are long-term investments and presently a sale of such investments is not expected to occur in the foreseeable future. According to the Group's hedging policy there are no hedges of net investments in foreign currencies.

Derivative financial instruments

Major parts of derivative financial instruments are designated as hedging instruments. Fixed forward exchange rate contracts are used for hedging of currency risks and interest swaps are used for hedging of interest risk.

Research and development costs

Expenditures for research and development are charged against income in the period incurred because the criteria for capitalization (IAS 38) are not met. In 2004 EUR 21,114 thousand and in 2003 EUR 25,470 thousand have been recognized as an expense.

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 are generally expensed as incurred.

Impairment of assets

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

m. Foreign currency

Foreign currency transactions

Foreign currency transactions are recorded in the reporting currency by applying to the foreign currency amount the exchange rate between the reporting 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 reporting currencies are their respective local currencies. Financial statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the balance sheet. Expense and revenue items are translated using the average exchange rates for the year. All resulting translation differences are included in a currency translation reserve in equity.

Any goodwill arising on the acquisition of a foreign entity is recorded using the exchange rate at the effective date of the transaction. Exchange differences arising on a monetary item that, in substance, forms part of the Group's net investment in a foreign entity are classified as equity in the consolidated financial statements until disposal of the net investment.

n. Employees Benefits

Defined benefit plans (provisions for pensions)

Some Group companies provide defined benefit pension plans for certain employees. The funds are valued every year by professionally qualified independent actuaries. The obligation and costs of pension benefits are determined using a 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. Actuarial gains or losses are amortized based on the expected average remaining working lives of the employees. 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 payments

In certain countries the Group is also obliged by law to pay termination indemnities in some cases of termination of employment. No termination indemnities are payable for voluntary termination at the request of the employee. Expenses related to termination indemnities are accrued.

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

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

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

E. Segments

Business segments

For management purposes the Group is organized on a worldwide basis into four major operating businesses. The strategic business units are the basis upon which the Group reports its primary segment information. Financial information on business and geographical segments is presented in section I (see “segment information” below). There are no material inter-segment transactions. All consolidation entries are included in the relevant segment. According to the monthly reporting scheme, 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 segments.

F. 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.

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G. Notes to the Balance Sheet

1. Changes in Fixed and Financial Assets

Acquisition or production costs

(in TEUR)	Balance as at 1 January 2004	Currency translation differences	Additions	Disposals	Changes due to business acquisitions	Transfers	Balance as at 31 December 2004
Intangible assets	**24,889**	**(473)**	**3,727**	**493**	**1,369**	**5**	**29,025**
Goodwill	**233,466**	**(7,225)**	**3,204**	**(0)**	**0**	**0**	**229,446**
Land and buildings	131,493	(1,410)	3,235	10,089	127	1,455	124,811
Technical equipment and machinery	136,098	(2,721)	11,172	11,353	1,267	214	134,676
Other equipment, factory and office equipment	63,783	(1,192)	9,605	7,194	671	511	66,184
Assets in course of construction	1,951	(26)	1,560	366	0	(2,180)	939
Advance payments on tangible assets	50	0	69	42	0	0	77
Total property, plant and equipment	**333,375**	**(5,350)**	**25,641**	**29,044**	**2,065**	**0**	**326,687**
Total intangible and tangible assets	**591,730**	**(13,048)**	**32,572**	**29,434**	**3,435**	**5**	**585,158**

Depreciation and amortization

(in TEUR)	Balance as at 1 January 2004	Currency translation differences	Depreciation and amortization for the year	Disposals	Changes due to business acquisitions	Transfers	Balance as at 31 December 2004
Intangible assets	**19,968**	**(454)**	**2,875**	**425**	**0**	**0**	**21,964**
Goodwill	**110,681**	**(5,481)**	**16,684**	**0**	**0**	**0**	**121,884**
Land and buildings	56,280	(787)	3,072	4,425	0	39	54,180
Technical equipment and machinery	103,177	(1,960)	8,093	10,149	3	(414)	98,750
Other equipment, factory and office equipment	46,753	(984)	8,470	6,330	76	382	48,367
Assets in course of construction	0	0	29	29	0	0	0
Advance payments on tangible assets	0	0	0	0	0	0	0
Total property, plant and equipment	**206,210**	**(3,731)**	**19,664**	**20,932**	**79**	**7**	**201,297**
Total intangible and tangible assets	**336,859**	**(9,665)**	**39,223**	**21,358**	**79**	**7**	**345,145**

Net book value

(in TEUR)	Costs as at 31 December 2004	Accumulated depreciation	Net book value as at 31 December 2004	Net book value as at 31 December 2003
Intangible assets	29,025	21,964	7,061	4,921
Goodwill	**229,446**	**121,884**	**107,561**	**122,785**
Land and buildings	124,811	54,180	70,631	75,213
Technical equipment and machinery	134,676	98,750	35,926	32,921
Other equipment, factory and office equipment	66,184	48,367	17,818	17,030
Assets in course of construction	939	0	939	1,951
Advance payments on tangible assets	77	0	77	50
Total property, plant and equipment	**326,687**	**201,297**	**125,390**	**127,165**
Total intangible and tangible assets	**585,158**	**345,145**	**240,012**	**254,871**

Finance leases

The net book value for technical equipment and machinery includes an amount of EUR 1,074 thousand (2003 EUR 1,426 thousand) and the net book value for other equipment, factory and office equipment includes an amount of EUR 211 thousand (2003 EUR 256 thousand) in respect of assets held under finance lease. The total of minimum lease payments at balance sheet date amounts to EUR 1,088 thousand (2003 EUR 1,555 thousand). The leasing contracts have remaining terms from 7 up to 49 months.

Impairment loss

In 2004 the goodwills arising from the acquisition of Acutest and the furnace business from Selas met the tests for impairment because the businesses did not develop according to plan. The impairment loss for these goodwills amounted to EUR 2,955 thousand, of which EUR 1,294 thousand are related to the Pulp and Paper Business Area and the remaining value is related to the Rolling Mills and Strip Processing Lines Business Area. For participation in associated companies an impairment loss of EUR 1,041 thousand has been reported, which is related to the Pulp and Paper Business Area.

Goodwill

(in TEUR)	2004	2003
Andritz Ahlstrom	32,367	37,630
Acquisition of Andritz AG	59,596	65,555
Other	15,598	19,600
	107,561	**122,785**

2. Inventories

(in TEUR)	2004	2003
Finished goods	46,054	35,585
Work in progress	66,395	50,781
Raw materials	27,523	21,348
	139,972	**107,714**

The shown inventories are valued at cost.

3. Advance Payments Made

The advance payments made and presented in the balance sheet relate to open purchase orders for contracts.

4. Trade Accounts Receivable

(in TEUR)	2004	2003
Accounts receivable	207,635	219,023
Allowance for doubtful accounts	(5,872)	(2,321)
	201,763	**216,702**

5. Construction Contracts

(in TEUR)	2004	2003
Contract revenue recognized as sales in the period	944,988	767,380
Contract costs incurred and recognized profits (less recognized losses) to date	1,344,997	1,063,683
Advances received and progress billings	1,426,880	1,063,344
Amount of retentions	1,233	1,242

The billings in excess of costs and earnings of projects under construction represent, primarily, payments from customers for work, which is not performed yet.

6. Other Receivables

(in TEUR)	2004	2003
Receivables from associated companies	746	410
Financial instruments carried at fair value	32,836	31,581
Other	29,732	28,519
	63,314	**60,510**

7. Statement of Receivables

2004

(in TEUR)	Total	Thereof remaining term under 1 year	Thereof remaining term over 1 year
Trade accounts receivable	201,763	201,280	483
Cost and earnings of projects under construction in excess of billings	115,950	115,396	554
Other receivables	63,314	62,169	1,145
	381,027	**378,845**	**2,182**

2003

(in TEUR)	Total	Thereof remaining term under 1 year	Thereof remaining term over 1 year
Trade accounts receivable	216,702	216,672	30
Cost and earnings of projects under construction in excess of billings	107,738	107,738	0
Other receivables	60,510	59,418	1,092
	384,950	**383,828**	**1,122**

8. Retained Earnings

Dividends

For 2004 a dividend of EUR 1.40 per outstanding share is proposed by the Managing Board. The dividend for 2003 of EUR 12,889 thousand which is equal to EUR 1.00 per share was proposed by the Managing Board and was resolved at the 97th ordinary shareholders' meeting on 30 March 2004. The dividend was paid to the shareholders on 8 April 2004.

On 16 February 2005 the Managing Board authorized the consolidated financial statements for the year ended 31 December 2004 according to IFRS. On 16 February 2004 the management authorized the consolidated financial statements for the year ended 31 December 2003 according to IFRS to be issued to its Supervisory Board. The Supervisory Board is made up solely of non-executives and includes representatives of employees. The consolidated financial statements were presented for information purposes only to the Supervisory Board and subsequently acknowledged by the meeting of shareholders. The Supervisory Board and the meeting of shareholders acknowledged the consolidated financial statements.

Currency translation adjustment

Equity and shareholder loans in foreign currency are not hedged against currency risks because the investments are considered to be permanent and the conversion to the reporting currency is not planned. Exceptions are made for planned disposal of investments or planned repayments of shareholder loans.

9. Provisions

(in TEUR)	Balance as at 1 January 2004	Currency translation differences	Changes due to business acquisitions	Reclassification	Use	Reversal	Addition	Balance as at 31 December 2004
Provisions for severance payments	25,221	0	0	0	141	21	4,292	29,351
Provisions for pensions	28,593	(101)	950	0	1,260	6,024	5,022	27,180
Other non-current provisions	19,155	(334)	539	(1,773)	1,260	5,404	10,346	21,269
Non-current provisions	**72,969**	**(435)**	**1,489**	**(1,773)**	**2,661**	**11,449**	**19,660**	**77,800**
Current provisions	**77,459**	**(707)**	**4,374**	**2,382**	**18,894**	**16,643**	**33,852**	**81,823**

Other non-current and current provisions consist primarily of order related provisions (2004: EUR 93,554 thousand; 2003: EUR 80,004 thousand) for warranties, contingencies and impending losses.

10. Employee Benefit Obligations

Defined benefit plan for pensions

Some Group companies in Austria, USA, Finland, Germany and Sweden 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 dependant pensions. The benefits offered vary according to the legal, fiscal and economic conditions of each country. Benefits are dependent on years of service and in some cases on the respective employee's compensation.

The following table reconciles the funded status of defined benefit plans to the amounts recognized in the balance sheet:

(in TEUR)	**2004**	**2003**
Present value of funded defined benefit obligations	19,637	22,087
Fair value of plan assets	(10,891)	(8,266)
	8,746	**13,821**
Present value of unfunded defined benefit obligations	19,145	16,516
Unrecognized actuarial gains/losses	(711)	(1,744)
Net liability in balance sheet	**27,180**	**28,593**

Pension expense is comprised of the following:

(in TEUR)	**2004**	**2003**
Current service costs	1,240	965
Interest expense on obligations	1,591	886
Expected return on plan assets	(79)	(7)
Net actuarial gains/losses recognised	4,085	(143)
Past service costs	(0)	7,720
Effect of any curtailment or settlement	(8,672)	(10)
	(1,835)	9,411
Payments to defined contribution plans	12,334	12,755
	10,499	**22,166**

Principal actuarial assumptions used to determine pension obligations as of 31 December were as follows:

(in per cent)	**2004**	**2003**
Discount rate	5.00%	5.75%
Wage and salary increases	3.00%	3.00%
Retirement benefit increases	2.50%	2.50%

Severance payments

(in TEUR)	**2004**	**2003**
Present value of unfunded defined benefit obligations	29,351	25,221
Net liability in balance sheet	**29,351**	**25,221**

Severance expense is comprised of the following:

(in TEUR)	2004	2003
Current service costs	1,392	1,473
Interest expense on obligations	1,358	1,466
Net actuarial gains/losses recognised	2,728	(2,354)
	5,478	585
Payments to defined contribution plans	73	21
	5,551	**606**

Principal actuarial assumptions used to determine severance obligations as of 31 December were the same as used for pension obligations.

Management share option plan

A selected group of executives employed by the Group as at 1 June 2001 were eligible to participate in a Management Share Option Plan in connection with the Initial Public Offering. Each eligible executive who has subscribed shares having an aggregate subscription value calculated at the Offer Price (21 EUR per share) of at least 20,000 EUR (each such subscription a "Private Investment") is eligible for a special remuneration in the form of option rights. These option rights can be exercised provided that the average price of the shares during two separate assessment periods exceeds a certain percentage of the Offer Price. The first assessment period will run for a period of three months preceding the second anniversary of the initial listing of the shares on the Vienna Stock Exchange, whereas the second assessment period will run for a period of three months preceding the third anniversary of the initial listing of the shares on the Vienna Stock Exchange. If the average market value of the shares exceeds the Offer Price by 15% in the first assessment period (Option 1) or by 20% in the second assessment period (Option 2), the eligible executive will be entitled to purchase up to a maximum of 1,500, 2,500 and 5,000 shares with respect to Option 1 or Option 2 at the Offer Price depending on the seniority of the relevant executive, provided that the relevant executive can prove uninterrupted ownership of his Private Investment until the end of the assessment period. The options can be exercised only once and are not transferable. Option 1 could not be exercised, however exercise of Option 2 was possible, as the average market value of the shares in the second assessment period exceeded the Offer Price by more than 20%. The options can only be exercised at given times. Each participant may subscribe up to 50% of the number of shares stated in the Average Price Notice immediately after exercise of the option and payment of the prorata subscription price, the relevant participant can subscribe up to the remaining 25% of the shares set out in the notice on the exercise of the option. At the end of a six month term from the exercise of the option and payment of the remaining subscription price, the relevant participant can subscribe up to the remaining 25% of the shares set out in the notice on the exercise of the option.

Due to legal requirements, executives in the United States were not allowed to make a Private Investment but were granted option rights. Out of 105,500 options outstanding on 31 December 2003 66,750 options have been exercised in 2004; the weighted, average market share price at the time of exercise amounted to EUR 40,70. 22,250 options were useable on 31 December 2004 and were exercised in January 2005. The 16,500 remaining options lapsed in 2004. Andritz provided these shares by using the repurchased own shares.

The 97th Annual General Meeting of Shareholders on 30 March 2004 resolved a Share Option Program for Managers and Members of the Managing Board. The number of options granted to the different Manager varies, depending on the area of responsibility, between 1,500, 2,500 and 5,000 shares for Managers, to 10,000 for Board Members and 12,500 for the 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 to the purchase of one share. In order to exercise a share option, eligible persons must be in active employment of Andritz AG or one of its affiliates from 1 May 2004 until before 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 the Members of the Managing Board at least 40,000 EUR.

The exercise price of the option is the un-weighted average closing price of Andritz shares in the four calendar weeks following the 97th Annual General Meeting of Shareholders on 30 March 2004 and amounts to 37.53 EUR. Option can be exercised between 1 May 2006 and 30 April 2008 (=period of exercise) provided that the average un-weighted closing price of the Andritz share over twenty consecutive trading days within the period from 1 May 2006 and 30 April 2007 is at least 15% above the exercise price and the earnings per share in business year 2005 (based on the total number of shares listed) or the earnings per share in business year 2006 (based on the total number of shares listed) are at least 15 % above the earnings per share in business year 2003 (based on the total number of shares listed) or that the average unweighted closing price of the Andritz share over twenty consecutive trading days within the period from 1 May 2007 and 30 April 2008 is at least 20% above the exercise price and the earnings per share in business year 2006 (based on the total number of shares listed) or the earnings per share in business year 2007 (based on the total number of shares listed) are at least 20 % above the earnings per share in business year 2003 (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 total of options granted in 2004 amounts to 174,500, which is equal to the total of outstanding options on 31 December 2004. The fair value of the options at the time of granting amounts to EUR 1,220 thousand, thereof EUR 356 thousand has been reported as proportionate expense in 2004. The calculation of the fair value is based on the Black-Scholes Option Pricing Model. The share price at the time of granting the options is the closing price of the Andritz share on 17 May 2004 and amounts to EUR 37.05. The exercise price of EUR 37.53 was calculated in accordance to the rules of the option program. For the lifetime of the options a period of two years was assumed. The expected dividend yield was fixed with 3%, a discount rate of 5% was used. The expected volatility was calculated on the basis of the historical development of the share price of the Andritz share during the 30 months preceding the granting date of the options. Further parameters of granting the options were not used.

11. Statement of Liabilities

2004

(in TEUR)	Remaining term between 1 and 5 years	Remaining term over 5 years	Total non-current liabilities
Bonds	100,000	0	100,000
Bank loans	2,575	2,636	5,211
Obligations under finance lease	582	0	582
	103,157	2,636	105,793
Provisions non-current			77,800
			183,593

2003

(in TEUR)	Remaining term between 1 and 5 years	Remaining term over 5 years	Total non-current liabilities
Bonds	100,000	0	100,000
Bank loans	1,919	2,567	4,486
Obligations under finance lease	919	0	919
	102,838	2,567	105,405
Provisions non-current			72,969
			178,374

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

Property, plant and equipment amounting to EUR 3,414 thousand and EUR 17,781 thousand as at 31 December 2004 and 2003, respectively, has been pledged as security for long-term debt.

12. Other Liabilities

(in TEUR)	2004	2003
Payables to associated companies	125	297
Other personnel related costs	44,410	40,164
Other order related costs	44,471	51,726
Deferred income	3,515	1,093
Other	57,313	55,601
	149,834	**148,881**

H. Notes to the Consolidated Income Statement

13. Sales

(in TEUR)	2004	2003
Contract revenue recognised as sales in the period	944,988	767,380
Other	536,359	457,610
	1,481,347	**1,224,990**

14. Other Operating Income

(in TEUR)	2004	2003
Profit on disposal of fixed assets excluding financial assets	3,691	371
Exchange rate gains	9,390	9,919
Rental income	1,582	1,584
Other	6,136	8,225
	20,799	**20,099**

15. Personnel Expenses

(in TEUR)	2004	2003
Wages	59,050	53,516
Salaries	197,267	181,676
Pension expenses	10,499	22,166
Severance expenses	5,551	606
Social security and payroll related duties	37,601	35,171
Other social payments	12,738	11,662
	322,706	**304,797**

16. Other Operating Expenses

(in TEUR)	2004	2003
Exchange rate losses	14,821	6,647
Sales expenses	89,503	76,740
Administration expenses	23,826	23,877
Other	81,133	69,164
	209,283	**176,428**

17. Financial Results

(in TEUR)	2004	2003
Income / expenses from associated companies	(1,543)	(419)
Other interest and similar income	8,454	6,469
Interest and similar expenses	(6,475)	(5,463)
Interest result	1,979	1,006
Income / expenses from investments	64	95
Adjustments of financial assets	304	83
Profit/losses on disposal of short-term securities	(4)	(43)
Adjustment to market value of short-term securities	293	(336)
Other income / expenses from financing activities	657	(201)
	1,093	**386**

18. Income Taxes

(in TEUR)	2004	2003
Current tax expense	(18,187)	(20,810)
Deferred tax income relating to the origination and reversal of temporary differences	(4,643)	2,009
	(22,830)	**(18,801)**

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

(in TEUR)	2004	2003
Deferred tax assets	18,876	17,696
Liabilities for deferred taxes	(50,546)	(45,803)
Balance as at 31 December, as previously stated	(31,670)	(28,107)
Deferred tax expense relating to the origination and reversal of temporary differences		
income statement charge	(280)	4,040
charged to equity	(4,889)	(7,603)
	(36,839)	**(31,670)**
thereof		
Deferred tax assets	21,854	18,876
Liabilities for deferred taxes	(58,693)	(50,546)

The reconciliation of the effective tax rate to the tax rate used is as follows:

(in TEUR)	2004	2003
Earnings before taxes (EBT)	77,228	49,318
Tax at the applicable tax rate (34% in 2004 and 2003)	(26,257)	(16,768)
Non-deductable amortization of goodwill	(5,673)	(4,828)
Tax effect of		
adjustment of using new taxes	9,762	(425)
other changes	(662)	3,220
	(22,830)	(18,801)
Current income tax	18,187	20,810
Changes in deferred taxes charged to the income statement	**(4,643)**	**2,009**

Income tax effects related to tax rate changes are the result of the decrease of Austrian tax rate from 34% to 25% from 2005 on.

Deferred tax assets and liabilities for deferred taxes as at 31 December 2004 and 2003 are the result of the following temporary valuation and accounting differences between book values in the IFRS consolidated financial statements and the relevant tax bases:

	2004 Deferred tax		2003 Deferred tax	
(in TEUR)	Asset	Liability	Asset	Liability
Intangible assets	1,575	(435)	1,390	(1,146)
Tangible assets	2,634	(8,405)	1,416	(10,064)
Financial assets	193	(46)	5	(33)
Inventories	121,636	(3,132)	137,554	(441)
Receivables	6,476	(19,826)	509	(26,251)
Short-term securities and shares	0	(89)	0	(113)
Other assets	338	(268)	0	(6)
	132,852	**(32,201)**	**140,874**	**(38,054)**
Provisions	16,584	(23,159)	20,026	(29,735)
Liabilities	4,520	(128,287)	8,159	(123,172)
Deferred income	10,075	0	7,996	(141)
	31,179	**(151,446)**	**36,181**	**(153,048)**
Tax loss carry-forwards	7,539	0	5,495	0
Deferred tax assets / liabilities	171,570	(183,647)	182,550	(191,102)
Valuation allowance for deferred tax assets	(14,060)	0	(12,959)	0
Other deferred taxes from consolidation	(1,425)	0	(615)	0
IAS 39 reserve	0	(9,277)	0	(9,544)
Offset within legal tax units and jurisdiction	(134,231)	134,231	(150,100)	150,100
Net deferred tax assets and liabilities	**21,854**	**(58,693)**	**18,876**	**(50,546)**

19. Earnings per Share

Basic earnings per share (see Consolidated Income Statement) are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

I. Segment Information

Segment information is prepared on the following basis:

Business segments
The Andritz Group conducts the majority of its business activities in the following areas:

a. Pulp and Paper (P+P)
b. Rolling Mills and Strip Processing Lines (WB)
c. Environment and Process (EP)
d. Feed Technology (FT)

All other minor business activities are included in “Other”.

Geographical segments
The Group’s activities are conducted predominantly in Europe, North America and Asia.

2004
Business segment data

(in TEUR)	P + P	WB	EP	FT	Other and transition	Total
Sales	884,652	235,356	217,941	99,588	43,810	1,481,347
Segment result before amortization of goodwill	64,812	12,141	9,916	2,204	3,746	92,819
Total assets	392,170	75,460	156,511	59,376	469,869	1,153,386
Total liabilities	433,786	102,197	96,227	21,897	22,198	876,305
Capital expenditure	14,304	3,192	7,879	1,622	2,371	29,368
Depreciation and amortization of tangible and intangible fixed assets	13,055	2,152	2,682	2,880	1,770	22,539
Share of net profit / loss of associates	(1,601)	0	58	0	0	(1,543)
Investment in associates	1,428	0	674	0	0	2,102

Geographical segment data

(in TEUR)	Europe	North America	Asia	Rest of the world and con-solidation	Total
External sales	587,839	248,105	442,802	202,601	1,481,347
Total assets	1,356,505	220,957	35,086	(459,162)	1,153,386
Capital expenditure	20,298	6,449	2,031	590	29,368

2003
Business segment data

(in TEUR)	P + P	WB	EP	FT	Other and transition	Total
Sales	810,276	173,142	110,353	99,177	32,042	1,224,990
Segment result before amortization of goodwill	49,135	4,413	1,485	4,801	3,299	63,133
Total assets	444,333	65,418	87,272	68,631	301,258	966,912
Total liabilities	384,590	67,943	47,007	25,991	202,281	727,812
Capital expenditure	9,301	1,419	1,545	6,637	1,647	20,549
Depreciation and amortization of tangible and intangible fixed assets	14,763	2,171	1,828	2,626	(151)	21,237
Share of net profit / loss of associates	(419)	0	0	0	0	(419)
Investment in associates	3,022	0	0	0	0	3,022

Geographical segment data

(in TEUR)	Europe	North America	Asia	Rest of the world and con-solidation	Total
External sales	645,049	259,729	236,738	83,474	1,224,990
Total assets	1,170,450	178,547	18,533	(400,618)	966,912
Capital expenditure	15,829	2,232	2,237	251	20,549

J. Notes to Cash Flow Statements

Cash flows from acquisition of subsidiaries

(in TEUR)	Business area P+P	WB	EP	Total 2004	Total 2003
Cash and cash equivalent	(1,028)	0	(1,511)	(2,539)	(4,449)
Receivables	(836)	0	(20,235)	(21,071)	(6,886)
Inventories	(186)	(2,500)	(13,898)	(16,584)	(5,170)
Property, plant and equipment	(34)	(1,450)	(8,060)	(9,544)	(14,027)
Financial assets	0	0	(613)	(613)	(160)
Financial debt	0	0	2,834	2,834	9,553
Accounts payable and accrued expenses	2,775	0	39,307	42,082	11,673
Net assets / liabilities acquired	691	(3,950)	(2,176)	(5,435)	(9,466)
Cash and cash equivalent	1,028	0	1,511	2,539	4,449
Goodwill	(1,080)	(37)	(1,344)	(2,461)	(8,678)
Changes in minority interests	142	0	0	142	(248)
Net cash flow	**781**	**(3,987)**	**(2,009)**	**(5,215)**	**(13,943)**

K. Financial Instruments

a. Foreign Exchange Risk Management

The Group mostly enters into fixed forward foreign exchange contracts in managing 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 for firm commitments and highly probable purchases and sales. The currency risks of the Group occur due to the fact that the Group operates and has production and sales in different countries worldwide. The Group has designated the major part of its forward exchange contracts as cash flow hedges and carries them at fair value.

b. Liquidity Risks

The group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of credit facilities to meet its commitments. Any excess cash is invested mostly in listed securities which are actively traded.

c. 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 corporation obtains guarantees from governmental export agencies or similar private institutions to reduce the risk of a counterpart defaulting. Credit risk associated with the investment of liquid funds and securities is limited by the fact that the Group works only with financial partners who can demonstrate sound creditworthiness. For some financial assets and financial liabilities the Group has a legally enforceable right to set off. These amounts are only reported on a net basis. For all existing risks, valuation allowances are included, so that the Managing Board believes that no other credit risk will occur.

d. Interest Risk

In June 2002 the company has issued a bond for a nominal value of MEUR 100 with a repayment period of 6 years and nominal interest rate of 6% p.a. For this bond an interest swap has been used to hedge the risk from the fixed interest rate of the bond. By this interest swap the fixed interest rate has been changed for the whole repayment period to a variable interest rate based on 1 month's Euribor.

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

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

	2004	2003
Cash on current accounts	1.4%	0.9%
Short term deposits	2.2%	4.1%
Securities, short term	3.5%	3.9%
Securities, long term	2.7%	3.1%
Overdraft on current accounts	2.3%	3.0%
Short term loans	3.5%	4.1%
Long term loans	5.0%	5.0%
Bond	3.2%	3.2%

e. Fair Value of Financial Instruments
Fair value estimation

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

At the balance sheet date, the fair values of forward contracts designated as cash flow hedges were as follows:

(in TEUR)	Remaining period not exceeding 1 year	Remaining period more than 1 year	Total 2004	Total 2003
US dollars	22,010	1,747	23,757	24,110
Swedish crowns	(17)	0	(17)	30
Singapore dollars	5,573	3,116	8,689	7,511
Other currencies	407	0	407	(70)
	27,973	4,863	**32,836**	**31,581**

Fair values of forward contracts designated as cash flow hedges are included directly in equity.

(in TEUR)	2004	2003
Forward contracts with positive fair values	37,815	33,175
Forward contracts with negative fair values	(4,979)	(1,594)
	32,836	**31,581**

The fair value of the interest swap was EUR 9,666 thousand as of end at 2004 (EUR 9,019 thousand as of end of 2003).

The Group's principal financial instruments not carried at fair value are trade receivables, finance instruments and other current assets, trade and other payables, bank overdrafts, long-term borrowings.

Cash and cash equivalents, current investments and other non-current financial assets
The carrying amount of cash and other financial assets approximates 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 stated based on quoted market prices. For all other instruments for which there are no quoted market prices, a reasonable estimate of fair value has been calculated based on the expected cash flows or the underlying net asset base for each investment. 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 cost carrying amounts of receivables and payables which are all subject to normal trade credit terms correspond basically to their fair values.

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

Long-term borrowings
The fair value of the long-term debts is based on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings and other payables with variable interest rates approximates their carrying amounts.

The carrying amount is equal to the estimated fair value of the Group's financial instruments. The interest risk of the bond has been hedged by an interest swap. Management believes that the exposure to interest rate risk of the remaining financial assets and liabilities is negligible.

IAS 39-Reserve

The table below shows the movements in the hedging reserve in equity in respect to gains and losses on forward contracts designated as cash flow hedges during the period.

(in TEUR)	2004	2003
Balance as at 1 January	**18,511**	**8,601**
Movements in the period:		
Gains and losses from changes in fair value	14,635	20,972
Deferred income taxes thereon	(4,096)	(7,119)
Transfers to income statement	(12,764)	(5,974)
Deferred income taxes thereon	4,363	2,031
Balance as at 31 December	**20,649**	**18,511**

L. Leases

The Group and its subsidiaries have entered into various operating lease agreements for machinery, offices and other facilities as lessees. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing. Rent expense amounts to EUR 13,656 thousand in 2004 and EUR 11,420 thousand in 2003 respectively.

Future lease payments under non-cancelable operating lease are as follows:

(in TEUR)	2004	2003
Next year	4,260	3,174
1 year to 5 years	8,587	11,147
After 5 years	4,203	20
	17,050	**14,341**

M. Commitments

Commitments arising from contracts for expenditure on property, plant and equipment are only in the normal course of business. For 2004 these commitments amount to EUR 3,026 thousand and for 2003 to EUR 494 thousand.

N. Contingent Liabilities

a. Litigation

Various legal actions and claims are pending or may be asserted in the future against Group companies from litigations and claims incidental to the ordinary course of business. These mainly include product liability claims and contractual and intellectual property disputes. Related risks have been analysed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, the Managing Board believes that the outcome of these legal actions and claims, individually or in the aggregate, will not have a material adverse effect on the Company's business, liquidity, result of operations or financial position.

As of December 31, 2004, Andritz Inc., as subsidiary of the Company, was one of many defendants in a total of approximately 85 asbestos cases in the US. Nearly all of these cases involve claims by multiple plaintiffs against multiple defendants. In aggregate the cases involve a total of approximately 19,500 plaintiffs. Andritz Inc. does not believe it should be found liable in connection with any of these claims and plans to vigorously defend each claim. As the vast majority of claims against Andritz Inc. have not as yet been stated with specificity it is not possible for Andritz Inc. to assess the full extent of its potential exposure to asbestos litigation, which could be significant. Andritz Inc. has not had a judgment of liability rendered against it in connection with an asbestos claim. During the last years, approximately 22 asbestos cases and about 4,150 claims against Andritz have been dismissed, and one claim has been resolved mutually without Andritz incurring any significant liability or expense. It is possible that the final adjudication or settlement of such proceedings could have a material adverse effect on the Company's business, results of operations and financial condition. The Group believes it has several potential sources of recovery including insurance and/or contractual indemnities from the previous owners of the relevant businesses of Andritz Inc. Whether any indemnities and/or insurance will apply depends on the particular facts of each plaintiff's claim. Because the claims against Andritz in most cases have not as yet been stated with specificity and for the reasons set forth below, it is not possible for the Group to assess the amount of its expected recovery. Moreover, certain indemnitors or insurers have contested and others may contest the applicability of the indemnity or insurance in question, and there can be no assurance that the Group will prevail in any dispute relating to the applicability of such insurance or indemnity to existing or future claims against a Group company.

b. Other Contingencies

(in TEUR)	**2004**	**2003**
Outstanding bank guarantees concerning contracts with customers	217,219	172,333
Other contingencies	10,660	6,621

According to several contracts the customer is entitled to hold retention until the end of the warranty period. In order to redeem these retentions bank guarantees were submitted to the customer. In addition, other bank and company guarantees were issued as guarantees for advance and progress payments from customers. The management believes that the provisions for warranties and the shown liabilities are sufficient. No additional financial outflows from these guarantees are expected. In some cases Andritz has similar retention agreements with suppliers. In order to settle these retentions Andritz receives bank guarantees from the suppliers.

O. Related Party Transactions

Only minor business relations exist with the shareholders.
The shareholders are:

Free Float	72%
Certus Beteiligungs-GmbH	26%
Management	2%

Emoluments of the Managing Board

A provision of EUR 4,185 thousand in 2004 (EUR 4,012 thousand in 2003) has been recorded for pensions of former members of the Managing Board and their dependants; the current year expense for these pensions amounted to EUR 524 thousand for 2004 (EUR 140 thousand for 2003).

Directors' total remuneration for 2004 amounted to EUR 4,135 thousand (thereof EUR 2,891 thousand for profit related bonuses) and for 2003 to EUR 3,633 thousand.

P. List of Consolidated Subsidiaries

Material Affiliated Companies	Place of Incorporation	Ownership Interest direct	Ownership Interest indirect
Andritz Denmark A/S	Esbjerg/Denmark	100%	
Sprout-Matador A/S	Esbjerg/Denmark		100%
Andritz (USA), Inc.	Arlington/Texas (USA)	100%	
Andritz Inc.	Muncy/Pennsylvania (USA)		100%
Andritz-Ruthner, Inc.	Arlington/Texas (USA)		100%
Andritz Bird Inc.	Houston/Texas		100%
Andritz S.A.S.	Velizy/France	100%	
Andritz Selas S.A.S.	Gennevilliers/France		100%
Andritz Ingenieria S.A.	Madrid/Spain	100%	
Andritz GmbH	Hemer/Germany	100%	
Sundwig GmbH	Hemer/Germany		75%
Andritz Fiedler GmbH & Co KG	Regensburg/Germany		100%
Andritz Separation GmbH	Cologne/Germany		100%
Andritz Fliessbettsysteme GmbH	Ravensburg/Germany	100%	
Andritz Kaiser GmbH	Bretten-Gölshausen/Germany		100%
Andritz Filtrationstechnik GmbH	Selb/Germany		100%
Andritz Oy	Helsinki/Finland	100%	
Savonlinna Works Oy	Savonlinna/Finland		100%
Andritz Ltd./Ltèe.	Montreal/Canada	100%	
Andritz Fiber Drying Ltd.	Lachine/Canada		100%
Andritz AB	Örnsköldsvik/Sweden	100%	
Andritz Fiber Drying AB	Växjö/Sweden		100%
Andritz Ltd.	Chesterfield/UK	100%	
Andritz-Kenflo Foshan Pump Co. Ltd.	Foshan/China	60%	
Andritz Technologies Ltd.	Foshan/China	100%	
Andritz Dies & Rolls B.V.	Geldrop/Netherlands	100%	
Andritz Brasil Ltda.	Curitiba/Brazil	100%	

Graz, February 16, 2005

Wolfgang Leitner   Markku Hänninen   Franz Hofmann   Friedrich Papst   Bernhard Rebernik