

# CORPORATE RISKS

## Proven active risk management for many years

**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. To identify, manage and mitigate these risks, Andritz has a long-established Group-wide management steering committee whose main task is to identify nascent risks early and to take counter-measures. This is an important element in the active risk management within the Group. The risks described below, and the effects these risks may have on the business development of Andritz, have been taken into account in the Group's corporate planning.**

The risks that the Andritz Group may incur include, but are not limited to, the following:

### 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 frequent fluctuations in demand for their products. This is especially true of the Pulp and Paper and the Rolling Mills and Strip Processing Lines Business Areas, but all Business Areas can be affected. The prices for these products are, in part, dependent on the prevailing relationship between supply and demand. 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 volatility in the development of Order Intake of the Group.

#### Customer concentration

In some of the industries served by Andritz, there is a trend towards company mergers. This is especially prevalent in the pulp and paper and the steel industries. These mergers might result in a reduction of the number of customers in the future, as well as the Group having to negotiate with global companies with greater purchasing power. The dependence on key customers might increase, which could have direct consequences on the Group's financial development.

#### Uncertainty of future contracts

The Group's future performance depends on, among other things, securing certain new contracts. It can sometimes be difficult to predict when an order for which the Andritz Group has provided a quotation will actually be awarded. Contract awards are often effected by events outside the control of the Group, such as prices, demand, and general economic conditions. This can cause difficulties in matching the Group's workforce with contract needs. Although Andritz has been able to successfully manage this risk by outsourcing during brisk sales periods and producing in-house in periods of sales decline, this may change in the future.

#### 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 in the future the Group may be subject to liabilities relating to the investigation and clean-up of contaminated areas.

In addition, the Group provides several systems that involve the use of dangerous and hazardous chemicals and materials and provides installation and other services on industrial sites containing dangerous and hazardous chemicals and materials. In the event of a spill of these hazardous materials, accident or explosion involving such chemicals or materials, the Group could be responsible for property damage, personal injury, environmental remedies, and/or have to assume other liabilities arising out of such spill, accident, or explosion.

### Risks related to the Group's business

#### Currencies

The Group has operations and subsidiaries in a large number of countries outside Euroland, and a significant portion of its Sales and costs are denominated in non-Euro currencies, mainly in US dollars and British pounds. The currencies in these countries may be subject to fluctuations in exchange rates. Although the Group attempts to hedge the net currency exposure of the orders to mitigate the currency risk, 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 most of the main competitors of Andritz are also based in Euroland. As some of Andritz's major customers are based outside Euroland, changes in exchange rates could lead to a delay of 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.

#### Competitive position

The Andritz Group does business in very competitive markets. Some of the markets in which the Group competes are highly fragmented, with a few large, international manufacturers competing against each other and against a high number of smaller, local companies. This has, in some cases, adversely impacted sales margins realized by certain of the Group's businesses. The Andritz Group invests 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.

#### Acquisition and integration of complementary businesses

One of the Group's main strategic pillars is to become a comprehensive supplier of systems and equipment in all of its Business Areas through organic growth and complementary acquisitions. In the course of implementing this strategy since 1990, the Group has acquired and integrated a number of businesses with worldwide operations. However, no assurance can be given that the Group will be successful in identifying and acquiring appropriate acquisition candidates in the future, or that suitable candidates will be available, or that sufficient financing will be available. Furthermore, although Andritz

has an excellent track record of integrating newly-acquired businesses, it is possible that in connection with future acquisitions, the integration will not succeed and that planned objectives and synergies are not realized, or the Group may be exposed to new risks that have not been properly managed.

### Legal proceedings

In the course of its normal business the Andritz Group is party to numerous legal proceedings before both administrative and judicial courts, and bodies and arbitration tribunals. The substantial majority of such proceedings is of a nature considered typical of the Group's business. Where appropriate, provisions are made to cover the expected outcome of proceedings to which Group companies are a party, to the extent that negative outcomes are likely and reliable estimates can be made. However, even when provisions are made, there is no guarantee that these will always be sufficient.

As of December 31, 2005 Andritz Inc., a subsidiary of the Andritz Group, is one of many defendants in a total of 49 asbestos cases in the USA. In aggregate, the cases involve 12,999 plaintiffs. Nearly all of these cases involve claims by multiple plaintiffs against multiple defendants. Andritz Inc. does not believe it should be found liable in connection with any of these claims and plans to vigorously defend each claim.

For further information on asbestos litigation, please see page 108 of this report.

## Risks related to major orders

### Payment risks from customers

Much of the Group's business involves handling major projects with a large contract volume. If customers fail to meet their payment obligations for these projects, this may have negative effects on the net worth and liquidity position of the Group. The Andritz Group tries to limit these risks by securing payment guarantees from banks. Even in projects covered by export credit insurance, typically only 85% of the purchase price are secured through such insurance.

### Liabilities and performance of projects

In conjunction with the performance of plants supplied by Andritz, the Group is, in many cases, under contractual obligation to make performance guarantees and to meet certain deadlines. If the performances stated are not achieved, or if deadlines are exceeded, the Group may have to perform remedial work at its expense or pay damages. If a guaranteed performance level or deadline is missed by a wide margin, the customer may have the right to terminate the agreement and return the delivered system to the Group for a full refund and/or recover damages. Such action could adversely affect the Group's financial development. The Group has put risk management procedures in place to reduce, among other things, its contractual and financial risk exposure on projects.

### Cost overruns

The Group's projects are usually based on long-term contracts, the substantial majority of which are fixed price contracts awarded on a competitive bidding basis. The sales and operating margins realized in a fixed price contract may vary from original estimates as a result of changes in costs and productivity over the term of the contract, especially on projects that include plant-wide engineering and/or construction. In addition, since certain parts of the manufacture of the Group's supplies are outsourced, the Group may be compelled to quote at a fixed price to the customer without knowing exactly how much the purchased parts will cost. While estimates are made using empirical data and quotes from potential suppliers, these may not be accurate. The Group has experienced significant losses on certain past and pending projects, and project difficulties and losses may occur in the future in a way that would adversely affect the Group's financial condition.

### EPC/turn-key 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 systems. These turn-key or EPC contracts involve the risks discussed above, but also involve risks relating to greater on-site responsibilities, including environmental matters, local labor conditions and construction, and installation risks. Additionally, the Group is exposed to risks inherent in managing the third parties that perform 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.

## 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 price fluctuations within international financial markets. Possible price fluctuations and high volatility of major stock markets might adversely affect the price of Andritz shares.

### Recommendations by research analysts

As a publicly-listed company, Andritz is regularly analyzed by financial analysts and institutional investors. Analysts' recommendations to buy or sell Andritz shares and subsequent investment decisions by shareholders may lead to considerable price fluctuations of the shares. 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 (over 70%) of public free float of the Company's total outstanding shares has led to active trading in Andritz shares on the Vienna Stock Exchange. However, there is no assurance that active trading will be maintained in the future. If active trading is not maintained, the liquidity and the market price would be adversely affected, and investors might not be able to sell their shares at what they perceive to be an acceptable price. It could also result in the removal of Andritz shares from the ATX, the leading index of the Vienna Stock Exchange.