

# **CONSOLIDATED FINANCIAL STATEMENTS 2006 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 financial year from January 1, 2006 to December 31, 2006. These consolidated financial statements comprise the balance sheet as at December 31, 2006 and the income statement, statement of changes in equity and cash flow statement for the year ended December 31, 2006 and a summary of significant accounting policies and other explanatory notes.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. 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

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 in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and 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 consolidated 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 entity'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 entity'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. Based on the results of our audit in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of December 31, 2006, and of its financial performance and its cash flows for the financial year from January 1, 2006 to December 31, 2006, in accordance with International Financial Reporting Standards as adopted by the EU.

## Report on Other Legal and Regulatory Requirements

Laws and regulations applicable in Austria require us to perform audit procedures whether the consolidated management report is consistent with the consolidated financial statements and whether the other disclosures made in the consolidated management report do not give rise to misconception of the position of the Group.

In our opinion, the consolidated management report for the group is consistent with the consolidated financial statements.

Vienna, February 20, 2007

**AUDITOR TREUHAND GMBH**  
**Wirtschaftsprüfungs- und**  
**Steuerberatungsgesellschaft**

Walter MÜLLER  
(Austrian) Certified Public Accountants

Michael SCHOBER

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

## Consolidated Balance Sheet as of December 31, 2006

	Notes	2006 (in TEUR)	2005 (in TEUR)
<b>Assets</b>			
Intangible assets	1.	50,990	8,745
Goodwill	1.	207,392	120,683
Property, plant and equipment	1.	237,089	140,538
Shares in associated companies	1.	6,222	2,319
Investments		32,738	13,828
Other non-current receivables and assets	2./7.	6,132	5,976
Deferred tax assets	18.	58,969	21,845
<b>Non-current assets</b>		<b>599,532</b>	<b>313,934</b>
Inventories	3.	213,728	198,788
Advance payments made	4.	35,710	21,265
Trade accounts receivable	5.	347,368	236,518
Cost and earnings of projects under construction in excess of billings	6.	346,777	80,532
Other current receivables	7.	108,699	40,834
Prepayments and deferred charges		10,594	5,378
Marketable securities		39,592	75,257
Cash and cash equivalents		670,591	418,785
<b>Current assets</b>		<b>1,773,059</b>	<b>1,077,357</b>
<b>Total assets</b>		<b>2,372,591</b>	<b>1,391,291</b>
<b>Shareholders' equity and liabilities</b>			
Share capital		94,510	94,510
Capital reserves		45,966	45,966
Retained earnings	8.	262,352	179,941
<b>Equity attributable to shareholders of the parent company</b>		<b>402,828</b>	<b>320,417</b>
<b>Minority interests</b>		<b>11,712</b>	<b>8,335</b>
<b>Total shareholders' equity</b>		<b>414,540</b>	<b>328,752</b>
Bonds	11.	296,358	100,000
Bank loans and other financial liabilities – non-current	11.	21,826	6,200
Provisions – non-current	9./10./11.	182,002	92,105
Obligation under finance leases – non-current	11.	778	198
Other liabilities – non-current	11./12.	8,144	0
Liabilities for deferred taxes	18.	80,093	45,036
<b>Non-current liabilities</b>		<b>589,201</b>	<b>243,539</b>
Bank loans – current		24,900	3,361
Obligations under finance leases – current		599	384
Trade accounts payable		340,682	151,398
Billings in excess of cost and earnings of projects under construction	6.	391,934	250,609
Advance payments received		70,730	103,827
Provisions – current	9.	204,106	97,773
Liabilities for current taxes		22,605	20,643
Other current liabilities	12.	313,294	191,005
<b>Current liabilities</b>		<b>1,368,850</b>	<b>819,000</b>
<b>Total Shareholders' equity and liabilities</b>		<b>2,372,591</b>	<b>1,391,291</b>

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

# CONSOLIDATED INCOME STATEMENT

## Consolidated Income Statement for the year ended December 31, 2006

	Notes	2006 (in TEUR)	2005 (in TEUR)
<b>Sales</b>	<b>13.</b>	<b>2,709,686</b>	<b>1,744,295</b>
Changes in inventories of finished goods and work in progress		(46,933)	45,230
Capitalized cost of self-constructed assets		1,972	218
		2,664,725	1,789,743
Other operating income	<b>14.</b>	41,231	26,359
Cost of materials		(1,644,917)	(1,084,282)
Personnel expenses	<b>15.</b>	(516,933)	(363,555)
Other operating expenses	<b>16.</b>	(349,883)	(237,364)
<b>Earnings before interest, taxes, depreciation and amortization (EBITDA)</b>		<b>194,223</b>	<b>130,901</b>
Depreciation and amortization (without amortization of goodwill)	<b>1.</b>	(34,384)	(23,868)
<b>Earnings before interest, taxes and amortization of goodwill (EBITA)</b>		<b>159,839</b>	<b>107,033</b>
Impairment/Amortization of goodwill	<b>1.</b>	0	(383)
<b>Earnings before interest and taxes (EBIT)</b>		<b>159,839</b>	<b>106,650</b>
Income/Expenses from associated companies		1,244	147
Interest result		5,290	3,216
Other income from financing activities		(448)	11
<b>Financial results</b>	<b>17.</b>	<b>6,086</b>	<b>3,374</b>
<b>Earnings before taxes (EBT)</b>		<b>165,925</b>	<b>110,024</b>
Income taxes	<b>18.</b>	(44,572)	(29,786)
<b>Net income</b>		<b>121,353</b>	<b>80,238</b>
Thereof attributable to:			
Shareholders of the parent company		118,488	78,683
Minority interests		2,865	1,555
Weighted average number of no par value shares		12,817,591	12,839,237
Earnings per no par value share (in EUR)	<b>19.</b>	9.24	6.13
Effect of potential dilution of share options		83,124	82,247
Weighted average number of no par value shares and share options		12,900,715	12,921,484
Diluted Earnings per no par value share (in EUR)		9.18	6.09
Proposed or paid dividend per no par value share (in EUR)		3.00	2.00

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

# CONSOLIDATED CASH FLOW STATEMENT

## Consolidated Cash Flow Statement for the year ended December 31, 2006

	Notes	2006 (in TEUR)	2005 (in TEUR)
<b>Earnings before taxes (EBT)</b>		<b>165,925</b>	<b>110,024</b>
Interest result		(5,290)	(3,216)
Depreciation, write-ups and amortization of fixed assets		34,475	24,253
Income/Expense from associated companies		(1,244)	(147)
Changes in non-current provisions		12,563	13,127
Results from the sale of fixed and financial assets		194	(1,359)
Other non-cash income/expenses		5,470	8,767
Taxes paid		(42,131)	(23,127)
Interest received		23,023	10,754
Interest paid		(18,592)	(7,443)
<b>Gross cash flow</b>		<b>174,393</b>	<b>131,633</b>
Changes in inventories		44,269	(44,950)
Changes in advance payments made		(57)	(6,696)
Changes in receivables, prepayments and deferred charges		(160,868)	25,934
Changes in current provisions		36,136	12,659
Changes in advance payments received		(75,964)	48,231
Changes in liabilities and deferred income		125,224	70,459
<b>Cash flow from operating activities</b>		<b>143,133</b>	<b>237,270</b>
Payments received for asset disposals		2,729	2,631
Payments made for investments in fixed tangible and intangible assets		(47,475)	(26,760)
Payments made for investments in financial assets		(5,143)	(1,491)
Cash flow due to purchase of minority interests and business acquisitions	I.	(57,837)	(20,568)
Payments made for short-term financial investments		35,440	(8,578)
<b>Cash flow from investing activities</b>		<b>(72,286)</b>	<b>(54,766)</b>
Changes in interest bearing borrowings		213,981	(14,285)
Dividends paid by Andritz AG		(25,550)	(18,013)
Other changes of investments by minority shareholders		299	(618)
Payments concerning own shares		1,354	(13,020)
<b>Cash flow from financing activities</b>		<b>190,084</b>	<b>(45,936)</b>
<b>Change in cash and cash equivalents</b>		<b>260,931</b>	<b>136,568</b>
Changes in cash and cash equivalents resulting from exchange rate fluctuations		(9,125)	8,278
<b>Cash and cash equivalents at the beginning of the period</b>		<b>418,785</b>	<b>273,939</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>670,591</b>	<b>418,785</b>

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

# CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

## Consolidated Statement of Shareholders' Equity for the year ended December 31, 2006

(in TEUR)	Notes	Attributable to shareholders of the parent					Total	Minority interests	Total shareholders' equity
		Share capital	Capital reserves	Other retained earnings	IAS 39 reserve	Currency translation adjustments			
<b>Status as at 1 January 2005</b>		94,510	45,966	143,210	21,097	(34,871)	269,912	7,169	277,081
Currency translation adjustments						26,555	26,555	226	26,781
Changes to IAS 39 reserve					(24,269)		(24,269)	(29)	(24,298)
<b>Gains/(losses) recognized directly in equity, net of taxes on income</b>		0	0	0	(24,269)	26,555	2,286	197	2,483
Net income				78,683			78,683	1,555	80,238
<b>Total gains/(losses) for the year</b>		0	0	78,683	(24,269)	26,555	80,969	1,752	82,721
Dividends				(18,013)			(18,013)	(769)	(18,782)
Changes from acquisitions								183	183
Changes concerning own shares				(13,020)			(13,020)		(13,020)
Other changes				569			569		569
<b>Status as at 31 December 2005</b>		94,510	45,966	191,429	(3,172)	(8,316)	320,417	8,335	328,752
<b>Status as at 1 January 2006</b>		94,510	45,966	191,429	(3,172)	(8,316)	320,417	8,335	328,752
Currency translation adjustments	8.					(13,730)	(13,730)	(24)	(13,754)
Changes to IAS 39 reserve					3,845		3,845	(25)	3,820
<b>Gains/(losses) recognized directly in equity, net of taxes on income</b>		0	0	0	3,845	(13,730)	(9,885)	(49)	(9,934)
Net income				118,488			118,488	2,865	121,353
<b>Total gains/(losses) for the year</b>		0	0	118,488	3,845	(13,730)	108,603	2,816	111,419
Dividends	8.			(25,550)			(25,550)	(583)	(26,133)
Changes from acquisitions				(4,144)			(4,144)	1,144	(3,000)
Changes concerning own shares				1,354			1,354		1,354
Other changes				2,148			2,148		2,148
<b>Status as at 31 December 2006</b>		94,510	45,966	283,725	673	(22,046)	402,828	11,712	414,540

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, 2006

## A. General

Andritz AG ("Andritz") is incorporated under the laws of the Republic of Austria and has been listed on the Vienna Stock Exchange since June 2001. The Andritz Group (the "Group") is a leading producer of high technology industrial machinery and operates in five strategic Business Areas: Pulp and Paper, Hydro Power, Rolling Mills and Strip Processing Lines, Environment and Process, and Feed and Biofuel.

The average number of employees in the Group was 8,164 in 2006 and 5,632 in 2005. The registered office address of the Group is 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 Standards formulated by the International Accounting Standards Board (IASB) that are accepted by the European Union as well as the Interpretations formulated by the International Financial Reporting Interpretations Committee (IFRIC). In the current year Andritz has adopted all of the new Standards and Interpretations that are relevant to its operations and that are effective for accounting periods beginning on 1 January 2006. The amendment to IAS 19 ("Employee Benefits") has been applied in the fiscal year.

In August 2005, IFRS 7, "Financial Instruments: Disclosures" was issued and is effective for annual periods beginning on or after January 1, 2007. The standard supersedes IAS 32, "Financial Instruments, Disclosure and Presentation", and IAS 30, "Disclosure in the Financial Statements of Banks and Similar Financial Institutions". The Company is currently evaluating the impact of the standard on its consolidated financial statement disclosures.

For these financial statements prepared in accordance with IFRS based on § 245a of Austrian Commercial Code the legal requirements are met for the exemption from 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 sheet and income statement, 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.

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. Major Differences between Austrian and IFRS Accounting Principles

**Goodwill:** Goodwill from capital consolidation as well as any goodwill arising from business 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 realized 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 realization. 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 assets and liabilities 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.

**Provisions for pensions:** Differences may arise at application of the so-called corridor method or at initial recognition of actuarial gains or losses with equity. Basically Austrian Commercial law allows the application of the principles of IAS 19.

**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 changes in the fair value are recognized directly in equity.

**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:** According to the rules of IFRS derivatives are recognized at fair value through profit or loss. This also applies to embedded derivatives.

## C. Acquisitions

In the first half of 2006, Andritz acquired 100% of Küsters Group with locations in Germany and the USA. Küsters complements the products for paper and board machines in the Pulp and Paper Business Area.

In April 2006, 100% of the Brazil based company Andritz Pilão Equipamentos Ltda. was acquired. Pilão complements the products for the service business for Pulp and Paper and for stock preparation for the paper industry.

In June 2006, the Company acquired 100% of VA TECH HYDRO Group, one of the four largest, international systems suppliers for hydropower stations. In addition to supplying electromechanical equipment and services for hydropower stations including automation VA TECH HYDRO is a well known producer of turbo generators. VA TECH HYDRO is reported in the Hydro Power Business Area.

Andritz acquired the worldwide chip thickness screening business of BMH Wood Technology Oy, Finland, in September 2006. This transaction strengthens the position of Andritz as a leading supplier of wood processing equipment and services in the Pulp and Paper Business Area.

In December 2006, Andritz acquired the Coater Division for paper production from Bachofen+Meier AG (BMB), Switzerland. This Division complements the product portfolio in the area of paper and board production equipment enabling Andritz to offer complete systems. The Coater Division will be managed as a separate company under the name of Andritz BMB AG, based in Bülach, Switzerland.

In October 2006, Andritz acquired the US based CONTEC Decanter Inc. CONTEC specializes in the repair and maintenance of centrifuges and separators for various businesses. With this acquisition, the services organization in the Environment and Process Business Area is complemented.

Since their dates of acquisition, the businesses acquired in 2006 contributed EUR 449,229 thousand to Sales and EUR 18,212 thousand to EBITA (Earnings before Interest, Taxes, and Amortization of Goodwill) of the Andritz Group. If the businesses had been acquired at the beginning of 2006, the Group's additional Sales would have been EUR 768,659 thousand, and the Group's additional EBITA would have amounted to EUR 20,358 thousand.

The aggregate purchase price of the business combinations effected in 2006 amounted to EUR 237,855 thousand, including direct cost of acquisition of EUR 3,631 thousand.

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

(in TEUR)	2006
Current assets	552,788
Intangible assets	45,252
Goodwill	90,480
Property, plant and equipment	90,037
Other non-current assets	16,632
Deferred tax asset	25,977
Current liabilities	(467,415)
Non-current liabilities	(99,851)
Liabilities for deferred taxes	(20,189)
<b>Net assets acquired</b>	<b>233,711</b>

The factors contributing to goodwill recognized are assets which are not separately recognized such as an experienced and trained workforce, available reference plants, the existing customer base and the acquired market positions.

Disclosure of the carrying amounts of the acquired companies' assets and liabilities recorded immediately before the acquisitions in accordance with IFRS would be impracticable, as these amounts are not available under IFRS.

Initial accounting for VA TECH HYDRO Group in the consolidated financial statements is based on preliminary figures because of the size and the complexity of the business combination. The first time consolidation of the other acquisitions is also based on preliminary figures.

## 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 and goodwills 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. From 2005 on, any goodwill arising from business combinations is no longer 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 business combination. If the carrying amount exceeds the value in use that is calculated by using a Discounted Cash-Flow (DCF) calculation – based on future cash flows projected by the Managing Board – an impairment loss is recognized. An impairment loss recognized for goodwill will not be reversed in a subsequent period. The discount rate used for DCF calculation is based on an interest rate, which represents actual assessment of possible changes of 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 8.65% and 10.63% was applied.

At acquisition date substantial goodwills were allocated to existent cash-generating units of Andritz AG (1999), to the Pulp Mill Division acquired by the Andritz-Ahlstrom Group (2000/2001) as well as to the VA TECH HYDRO Group in the Hydro Power Business Area (2006).

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

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% 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 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 initially recognized at acquisition costs including transaction costs and are classified as available-for-sale investments. In subsequent periods other non-current securities held on a long-term basis are valued at fair value. Changes of these fair values are recognized as gains or losses directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in profit or loss of the period. Interest on these non-current securities is recognized directly in the income statement in the period they occur in.

**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 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 Receivable**

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 initially recognized at acquisition costs including transaction costs and are classified as available-for-sale investments. In subsequent periods marketable securities are valued at fair value. Changes of these fair values are recognized as gains or losses directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in profit or loss of the period. Interest on the marketable securities is recognized directly in the income statement of the period it occurs in.

**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 no par value.

Based on authorizations of the shareholders' meetings, held on 30 March 2004 and 30 March 2005, 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 and a further program for acquisition of own shares up to 1,300,000 shares between 1 October 2005 and 31 March 2007. The price range of both programs is a lowest price of 10 Euros and a highest price, which must not exceed the average unweighted closing price over the ten preceding trading days by more than 30%. In 2005, 210,711 own shares were acquired at an average price of 65.21 Euros per share and 22,250 own shares were resold at a price of 21 Euros per share to eligible executives of the Management Share Option Plan. 3,699 own shares were transferred to employees of Andritz AG in the course of an employee participation program. In 2006, 44,361 own shares were acquired at an average price of 120.82 Euros per share. 154,500 own shares were resold at a price of 37.53 Euros per share to eligible executives of the Management Share Option Plan and 2,104 own shares were transferred to employees of Andritz AG in the course of an employee participation program. In addition, 4,000 own shares were sold at the Vienna Stock Exchange for an average price of 162.40 Euros per share. At December 31, 2006 the Company held 108,959 own shares at a market value of EUR 17,902 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. Retained Earnings

Retained earnings include retained income, IAS 39 reserve and currency translation adjustments.

## l. Provisions

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

## m. Other Accounting and Valuation Principles

### Estimations for 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 balance sheet date changes after the balance sheet date are possible. These changes could lead to adjustments of assets and may influence earnings in subsequent periods.

### 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, non-current 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 assets and financial liabilities are recognized in the consolidated balance sheet, if the Group qualifies as a party to the contract concerning the contract regulations of the financial instrument.

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 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. 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. 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 does not qualify as a cash flow hedge the fair values respectively any changes of these contracts are reported as profit or loss in 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

Fixed forward exchange rate contracts are used for hedging of currency risks and interest swaps are used for hedging of interest risk. Derivative financial instruments are valued at their fair value on the balance sheet date and are recognized as other receivables, other liabilities respectively liabilities to banks and other financial liabilities.

### 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 2006 EUR 35,417 thousand and in 2005 EUR 27,148 thousand were 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.

**n. 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.

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

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.

**o. Employee 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. The actuarial gains or losses are included directly in the income statement of the period. 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. 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 of the pension plans are included directly in the income statement of the period. The pension obligation is measured at the present value of estimated future cash flows using different discount rates for different countries.

**p. Income Taxes**

The income tax charge is based on profit for the year and considers deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes 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 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 utilized. At each balance sheet date, the Group reassesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Group recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of 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 rate differences arising on the translation of inter-company loans.

## q. Use of Estimates

The preparation of financial statements requires Management 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 could differ from these estimates. Management has made judgements in the process of applying the Company's accounting policies. Additionally, at the balance sheet date Management made the following key assumptions concerning the future and has identified other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

a) Pension plans: The valuation of the various pension plans is based on the methodology used applying some parameters, including the expected discount rate, rate of compensation and pension increase and return on plan assets. If the relevant parameter developed materially differently than expected this could have a material impact on the Company's defined benefit obligation and subsequently net periodic pension cost.

b) Impairments: The impairment analysis for goodwill, other intangible assets and tangible assets is principally based 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, other intangible assets and tangible assets see Note F.

c) Employee incentive plans: The Stock Option Plans are measured based on the fair value of the options on the grant date and every subsequent reporting 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. Compensation expense and liabilities could materially differ from the estimated amount on the balance sheet date if the parameters used changed.

d) Deferred taxes: In assessing the recoverability of deferred tax assets, Management 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. If the Company does not generate sufficient taxable income, deferred tax assets on loss carry forwards cannot be used and will have to be provided for.

## r. 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 segments

For management purposes the Group is organized on a worldwide basis into five operating businesses. 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 in section H (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. Notes to the Consolidated Balance Sheet

### 1. Changes in Intangible and Tangible Assets

#### Acquisition or production costs

#### 2006

(in TEUR)	Balance as at 1 January 2006	Currency translation differences	Additions	Disposals	Changes due to business acquisitions	Transfers	Balance as at 31 December 2006
<b>Intangible assets</b>	<b>25,601</b>	<b>(503)</b>	<b>5,968</b>	<b>819</b>	<b>43,505</b>	<b>270</b>	<b>74,022</b>
<b>Goodwill</b>	<b>124,021</b>	<b>(4,371)</b>	<b>1,805</b>	<b>0</b>	<b>89,275</b>	<b>0</b>	<b>210,730</b>
Land and buildings	132,516	(2,800)	5,734	1,581	48,948	8,847	191,664
Technical equipment and machinery	150,455	(4,589)	10,877	5,454	25,340	(2,547)	174,082
Other equipment, factory and office equipment	74,200	(2,196)	13,806	5,909	11,624	1,449	92,974
Assets in course of construction	4,416	(200)	8,042	811	3,860	(7,232)	8,075
Advance payments on tangible assets	523	(17)	1,241	1	472	(787)	1,431
<b>Total property, plant and equipment</b>	<b>362,110</b>	<b>(9,802)</b>	<b>39,700</b>	<b>13,756</b>	<b>90,244</b>	<b>(270)</b>	<b>468,226</b>
<b>Total intangible and tangible assets</b>	<b>511,732</b>	<b>(14,676)</b>	<b>47,473</b>	<b>14,575</b>	<b>223,024</b>	<b>0</b>	<b>752,978</b>

#### 2005

(in TEUR)	Balance as at 1 January 2005	Currency translation differences	Additions	Disposals	Changes due to business acquisitions	Transfers	Balance as at 31 December 2005
<b>Intangible assets</b>	<b>29,025</b>	<b>816</b>	<b>2,436</b>	<b>8,827</b>	<b>2,151</b>	<b>0</b>	<b>25,601</b>
<b>Goodwill</b>	<b>110,516</b>	<b>5,286</b>	<b>0</b>	<b>0</b>	<b>8,219</b>	<b>0</b>	<b>124,021</b>
Land and buildings	124,811	2,846	1,611	265	3,510	3	132,516
Technical equipment and machinery	134,676	5,773	6,295	692	4,160	243	150,455
Other equipment, factory and office equipment	66,184	3,188	12,224	8,408	739	273	74,200
Assets in course of construction	939	181	3,645	96	283	(536)	4,416
Advance payments on tangible assets	77	3	523	63	0	(17)	523
<b>Total property, plant and equipment</b>	<b>326,687</b>	<b>11,991</b>	<b>24,298</b>	<b>9,524</b>	<b>8,692</b>	<b>(34)</b>	<b>362,110</b>
<b>Total intangible and tangible assets</b>	<b>466,228</b>	<b>18,093</b>	<b>26,734</b>	<b>18,351</b>	<b>19,062</b>	<b>(34)</b>	<b>511,732</b>

## Depreciation and amortization

## 2006

(in TEUR)	Balance as at 1 January 2006	Currency translation differences	Depreciation and amorti- zation for the year	Disposals	Changes due to business acquisitions	Transfers	Balance as at 31 December 2006
<b>Intangible assets</b>	<b>16,856</b>	<b>(287)</b>	<b>6,655</b>	<b>160</b>	<b>0</b>	<b>(32)</b>	<b>23,032</b>
<b>Goodwill</b>	<b>3,338</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,338</b>
Land and buildings	58,939	(1,434)	4,760	1,549	0	2,355	63,071
Technical equipment and machinery	110,233	(3,192)	11,442	4,820	0	(5,909)	107,754
Other equipment, factory and office equipment	52,390	(1,776)	11,527	5,425	0	3,586	60,302
Assets in course of construction	10	0	0	0	0	0	10
Advance payments on tangible assets	0	0	0	0	0	0	0
<b>Total property, plant and equipment</b>	<b>221,572</b>	<b>(6,402)</b>	<b>27,729</b>	<b>11,794</b>	<b>0</b>	<b>32</b>	<b>231,137</b>
<b>Total intangible and tangible assets</b>	<b>241,766</b>	<b>(6,689)</b>	<b>34,384</b>	<b>11,954</b>	<b>0</b>	<b>0</b>	<b>257,507</b>

## 2005

(in TEUR)	Balance as at 1 January 2005	Currency translation differences	Depreciation and amorti- zation for the year	Disposals	Changes due to business acquisitions	Transfers	Balance as at 31 December 2005
<b>Intangible assets</b>	<b>21,964</b>	<b>708</b>	<b>2,879</b>	<b>8,695</b>	<b>0</b>	<b>0</b>	<b>16,856</b>
<b>Goodwill</b>	<b>2,955</b>	<b>0</b>	<b>383</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,338</b>
Land and buildings	54,180	1,586	3,286	113	0	0	58,939
Technical equipment and machinery	98,750	4,075	7,993	442	0	(143)	110,233
Other equipment, factory and office equipment	48,367	2,173	9,700	7,959	0	109	52,390
Assets in course of construction	0	0	10	0	0	0	10
Advance payments on tangible assets	0	0	0	0	0	0	0
<b>Total property, plant and equipment</b>	<b>201,297</b>	<b>7,834</b>	<b>20,989</b>	<b>8,514</b>	<b>0</b>	<b>(34)</b>	<b>221,572</b>
<b>Total intangible and tangible assets</b>	<b>226,216</b>	<b>8,542</b>	<b>24,251</b>	<b>17,209</b>	<b>0</b>	<b>(34)</b>	<b>241,766</b>

## Net book value

(in TEUR)	Costs as at 31 December 2006	Accumulated depreciation	Net book value as at 31 December 2006	Net book value as at 31 December 2005
<b>Intangible assets</b>	<b>74,022</b>	<b>23,032</b>	<b>50,990</b>	<b>8,745</b>
<b>Goodwill</b>	<b>210,730</b>	<b>3,338</b>	<b>207,392</b>	<b>120,683</b>
Land and buildings	191,664	63,071	128,593	73,577
Technical equipment and machinery	174,082	107,754	66,328	40,222
Other equipment, factory and office equipment	92,974	60,302	32,672	21,810
Assets in course of construction	8,075	10	8,065	4,406
Advance payments on tangible assets	1,431	0	1,431	523
<b>Total property, plant and equipment</b>	<b>468,226</b>	<b>231,137</b>	<b>237,089</b>	<b>140,538</b>
<b>Total intangible and tangible assets</b>	<b>752,978</b>	<b>257,507</b>	<b>495,471</b>	<b>269,966</b>

## Finance leases

The net book value for technical equipment and machinery includes an amount of EUR 1,006 thousand (2005: EUR 772 thousand) and the net book value for other equipment, factory and office equipment includes an amount of EUR 333 thousand (2005: EUR 73 thousand) in respect of assets held under finance lease. The total of minimum lease payments at balance sheet date amounts to EUR 1,293 thousand (2005: EUR 582 thousand). The leasing contracts have remaining terms from 7 up to 48 months.

## Goodwill

(in TEUR)	2006	2005
VA TECH HYDRO	80,542	0
Andritz Ahlstrom	35,287	35,540
Acquisition of Andritz AG	59,596	59,596
Other	31,967	25,547
	<b>207,392</b>	<b>120,683</b>

In 2006, there was no need for impairment of goodwill. In 2005, the goodwill arising from the acquisition of CyberMetrics Inc. met the tests for impairment because the business did not develop according to plan. The impairment loss for this goodwill amounted to EUR 383 thousand and is related to the pulp and paper business. It was included in the income statement under impairment/amortization of goodwill.

## Shares in associated companies

Accumulated assets of material associated companies included in the consolidated balance sheet as of December 31, 2006 amount to EUR 53,205 thousand, total liabilities to EUR 43,866 thousand, sales amount to EUR 82,159 thousand and net income amounts to EUR 2,506 thousand.

## 2. Other Non-current Receivables and Assets

The amount recorded for the prior fiscal year of EUR 5,976 thousand was shown in the positions trade accounts receivable (EUR 662 thousand) and other receivables (EUR 5,314 thousand) in the financial statements of 2005.

### 3. Inventories

(in TEUR)	2006	2005
Finished goods	64,834	54,286
Work in progress	83,404	108,189
Raw materials	65,490	36,313
	<b>213,728</b>	<b>198,788</b>

The write-down of inventory for obsolete and slow-moving items included as expense in the income statement amounts to EUR 4,570 thousand (2005: EUR 2,571 thousand).

### 4. Advance Payments Made

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

### 5. Trade Accounts Receivable

Allowances for doubtful accounts in the amount of EUR 12,564 thousand (2005: EUR 5,130 thousand) are included in the trade accounts receivable.

The Managing Board considers that the carrying amount of trade receivables corresponds with their fair value.

### 6. Construction Contracts

(in TEUR)	2006	2005
Contract revenue recognized as sales in the current period	1,778,173	1,070,884
Contract costs incurred and recognized profits (less recognized losses) to date	3,300,809	1,666,753
Advances received and progress billings	3,345,966	1,836,831
Amount of retentions	2,585	348

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

## 7. Other Receivables

(in TEUR)	2006	2005
Receivables from associated companies	3,280	2,120
Financial instruments carried at fair value	11,265	0
Receivables from value-added tax	31,785	20,193
Receivables from prepaid income taxes	8,774	7,166
Receivables from other taxes and charges	1,995	1,052
Other	54,977	15,617
	<b>112,076</b>	<b>46,148</b>
thereof other current receivables	108,699	40,834
thereof other non-current receivables	3,377	5,314
	<b>112,076</b>	<b>46,148</b>

The Managing Board considers that the carrying amount of other receivables corresponds with their fair value.

## 8. Retained Earnings

### Dividends

For 2006 a dividend of EUR 3.00 per outstanding share is proposed by the Managing Board. The dividend for 2005 of EUR 25,550 thousand which is equal to EUR 2.00 per share was proposed by the Managing Board and was approved at the 99<sup>th</sup> Annual General Meeting of Shareholders on 29 March 2006. The dividend was paid to the shareholders on 7 April 2006.

On 16 February 2007, the Managing Board authorized the consolidated financial statements for the year ended 31 December 2006 according to IFRS. On 17 February 2006, the Management authorized the consolidated financial statements for the year ended 31 December 2005 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 General 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****2006**

(in TEUR)	Balance as at 1 January 2006	Currency translation differences	Changes due to business acquisitions	Reclassi- fication	Use	Reversal	Addition	Balance as at 31 December 2006
Provisions for severance payments	33,850	(8)	38,915	0	2,519	0	4,805	75,043
Provisions for pensions	28,493	(178)	30,618	0	3,380	942	4,707	59,318
Other non-current provisions	29,762	(733)	8,520	(3,590)	756	2,481	16,919	47,641
<b>Non-current provisions</b>	<b>92,105</b>	<b>(919)</b>	<b>78,053</b>	<b>(3,590)</b>	<b>6,655</b>	<b>3,423</b>	<b>26,431</b>	<b>182,002</b>
<b>Current provisions</b>	<b>97,773</b>	<b>(2,443)</b>	<b>71,690</b>	<b>3,590</b>	<b>16,830</b>	<b>14,003</b>	<b>64,329</b>	<b>204,106</b>

**2005**

(in TEUR)	Balance as at 1 January 2005	Currency translation differences	Changes due to business acquisitions	Reclassi- fication	Use	Reversal	Addition	Balance as at 31 December 2005
Provisions for severance payments	29,351	0	0	0	17	20	4,536	33,850
Provisions for pensions	27,180	50	461	0	175	1,418	2,395	28,493
Other non-current provisions	21,269	780	30	(1,423)	1,723	1,307	12,136	29,762
<b>Non-current provisions</b>	<b>77,800</b>	<b>830</b>	<b>491</b>	<b>(1,423)</b>	<b>1,915</b>	<b>2,745</b>	<b>19,067</b>	<b>92,105</b>
<b>Current provisions</b>	<b>81,823</b>	<b>2,881</b>	<b>434</b>	<b>1,396</b>	<b>14,378</b>	<b>11,415</b>	<b>37,032</b>	<b>97,773</b>

Other non-current and current provisions consist primarily of order related provisions (2006: EUR 234,737 thousand; 2005: EUR 119,392 thousand) for warranties, contingencies and impending losses.

## 10. Employee Benefit Obligations

### Defined benefit plan for 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 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 changes of the benefit obligation for the years ended December 31, 2006 and 2005:

(in TEUR)	2006	2005
<b>Defined benefit obligation as at 1 January</b>	<b>42,411</b>	<b>38,782</b>
Currency translation differences	(46)	223
Current service cost	2,027	955
Interest cost on obligations	3,352	1,445
Actuarial gains/losses	(4,824)	2,741
Benefits paid	(4,637)	(1,514)
Contributions by the plan participants	1,101	0
Past service cost	8	57
Effect of any curtailment or settlement	463	(739)
Business acquisitions	101,787	461
<b>Defined benefit obligation as at 31 December</b>	<b>141,642</b>	<b>42,411</b>
Fair value of plan assets	(82,324)	(12,661)
<b>Funded status as at 31 December</b>	<b>59,318</b>	<b>29,750</b>
Unrecognized actuarial gains/losses	0	(1,258)
<b>Accrued liability as at 31 December</b>	<b>59,318</b>	<b>28,492</b>

Total pension obligations of EUR 141,642 thousand (2005: EUR 42,411 thousand) include EUR 88,302 thousand (2005: EUR 26,463 thousand) that are covered in part or in full by investments in funds (plan assets).

The following table reconciles the fair value of the plan assets:

(in TEUR)	2006	2005
<b>Fair value of plan assets as at 1 January</b>	<b>12,661</b>	<b>10,891</b>
Currency translation differences	(178)	187
Expected return on plan assets	1,654	220
Actuarial gains/losses	(3,017)	772
Contributions by the employer	2,184	735
Contributions by the plan participants	1,101	0
Benefits paid	(2,285)	(144)
Business acquisitions	70,204	0
<b>Fair value of plan assets as at 31 December</b>	<b>82,324</b>	<b>12,661</b>

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

(in TEUR)	2006	2005
Equity instruments	24,592	3,454
Debt instruments	40,332	5,388
Property	13,380	13
Other assets	4,020	3,806
	<b>82,324</b>	<b>12,661</b>

Pension expense is comprised of the following:

(in TEUR)	2006	2005
Current service cost	2,027	955
Interest expense on obligations	3,352	1,445
Expected return on plan assets	(1,654)	(220)
Actuarial gains/losses recognized	(549)	1,409
Past service cost	8	57
Effect of any curtailment or settlement	463	(739)
	<b>3,647</b>	<b>2,907</b>
Payments to defined contribution plans	14,425	11,136
	<b>18,072</b>	<b>14,043</b>

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

(in per cent)	2006	2005
Discount rate	4.50%	4.50%
Wage and salary increases	3.00%	3.00%
Retirement benefit increases	2.50%	2.50%
Expected return on plan assets	5.25%	5.25%

The average expected return was assumed as 5.25% due to the composition of the plan assets and under consideration of past experience. In 2006, the actual return on plan assets was approximately 4.6% (2005: approximately 11.0%).

Positive experience adjustments on obligations amounted to EUR 18 thousand, negative experience adjustments on assets amounted to EUR 165 thousand.

The expected payments to the pension fund for defined benefits are EUR 5,269 thousand for the fiscal year 2007.

**Severance payments**

The following table provides a reconciliation of the changes in the severance benefit obligations for the years ended December 31, 2006 and 2005:

(in TEUR)	2006	2005
<b>Defined benefit obligation as at 1 January</b>	<b>33,850</b>	<b>29,351</b>
Currency translation differences	12	(21)
Current service cost	2,308	1,406
Interest cost on obligations	2,314	1,404
Actuarial gains/losses	(29)	3,329
Benefits paid	(2,540)	(1,619)
Business acquisitions	39,128	0
<b>Defined benefit obligation as at 31 December</b>	<b>75,043</b>	<b>33,850</b>
Fair value of plan assets	0	0
<b>Funded status as at 31 December</b>	<b>75,043</b>	<b>33,850</b>
Unrecognized actuarial gains/losses	0	0
<b>Accrued liability as at 31 December</b>	<b>75,043</b>	<b>33,850</b>

Severance expense is comprised of the following:

(in TEUR)	2006	2005
Current service cost	2,308	1,406
Interest expense on obligations	2,314	1,404
Actuarial gains/losses recognized	(29)	3,329
	4,593	6,139
Payments to defined contribution plans	419	294
	<b>5,012</b>	<b>6,433</b>

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

**Management share option plan**

The 97<sup>th</sup> Annual General Meeting of Shareholders held on 30 March 2004 adopted a Share Option Program for Managers and Members of the Managing Board. The number of options granted to the different Managers 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 with 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 EUR 20,000 in Andritz shares from their own resources, and the Members of the Managing Board at least EUR 40,000.

The exercise price of the option is the unweighted average closing price of Andritz shares in the four calendar weeks following the 97<sup>th</sup> Annual General Meeting of Shareholders held on 30 March 2004. Options can be exercised between 1 May 2006 and 30 April 2008 (=period of exercise) provided that the average unweighted closing price of the Andritz share over twenty consecutive trading days within the period from 1 May 2006 to 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 to 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 options granted in 2004 amount to 174,500. The exercise requirements regarding the share price increase and the earnings per share were fulfilled in 2006, so the options could be exercised according to the other requirements of the program. The fair value of the options at the time of granting amounts to EUR 1,220 thousand, thereof EUR 254 thousand have been reported as proportionate expense in 2006. 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 with 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 at 3%, and 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.

The 99<sup>th</sup> Annual General Meeting of Shareholders held on 29 March 2006 adopted another Share Option Program for Managers and Members of the Managing Board. The number of options granted to the different Managers 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 with Andritz AG or one of its affiliates from 1 May 2006 until before each date of exercise of an option. Another requirement is that Managers must have invested at least EUR 20,000 in Andritz shares from their own resources, and the Members of the Managing Board at least EUR 40,000.

The exercise price of the option is the unweighted average closing price of Andritz shares in the four calendar weeks following the 99<sup>th</sup> Annual General Meeting of Shareholders held on 29 March 2006. The options can be exercised between 1 May 2008 and 30 April 2010 (=period of exercise) provided that the average unweighted closing price of the Andritz share over twenty consecutive trading days within the period from 1 May 2008 to 30 April 2009 is at least 15% above the exercise price and the earnings per share in business year 2007 (based on the total number of shares listed) or the earnings per share in business year 2008 (based on the total number of shares listed) are at least 15% above the earnings per share in business year 2005 (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 2009 and 30 April 2010 is at least 20% above the exercise price and the earnings per share in business year 2008 (based on the total number of shares listed) or the earnings per share in business year 2009 (based on the total number of shares listed) are at least 20% above the earnings per share in business year 2005 (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 options granted in 2006 amount to 236,000. The fair value of the options at the time of granting amounts to EUR 6,492 thousand, thereof EUR 1,894 thousand have been reported as proportionate expense in 2006. 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 1 June 2006 and amounts to EUR 129.75. The exercise price of EUR 126.67 was calculated in accordance with 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 2.5%, and a discount rate of 4.5% was used. As expected volatility the value released by the Vienna Stock Exchange was applied. Further parameters of granting the options were not used.

Movements in options under the stock option plans for financial years 2006 and 2005 were as follows:

	2006		2005	
	Number of options	Average exercise price per option (in EUR)	Number of options	Average exercise price per option (in EUR)
<b>Total at the beginning of the year</b>	<b>173,875</b>	<b>37.53</b>	<b>196,750</b>	<b>35.66</b>
Options granted	236,000	126.67	0	0.00
Options exercised	(154,500)	37.53	(22,250)	21.00
Options forfeited	0	0.00	(625)	37.53
<b>Total at the end of the year</b>	<b>255,375</b>	<b>119.91</b>	<b>173,875</b>	<b>37.53</b>
Exercisable at year-end	19,375	37.53	0	0.00

## 11. Statement of Liabilities

### 2006

(in TEUR)	Remaining term between 1 and 5 years	Remaining term over 5 years	Total non-current liabilities
Bonds	100,000	196,358	296,358
Bank loans and other financial liabilities – non-current	19,590	2,236	21,826
Obligations under finance leases – non-current	778	0	778
Other liabilities – non-current	8,144	0	8,144
	128,512	198,594	327,106
Provisions – non-current			182,002
			<b>509,108</b>

### 2005

(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 and other financial liabilities – non-current	3,652	2,548	6,200
Obligations under finance leases – non-current	198	0	198
Other liabilities – non-current	0	0	0
	103,850	2,548	106,398
Provisions – non-current			92,105
			<b>198,503</b>

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

The Managing Board considers that the carrying amount of liabilities corresponds with their fair value.

Property, plant and equipment amounting to EUR 15,111 thousand and EUR 4,573 thousand as at 31 December 2006 and 2005, respectively, has been pledged as security for long-term debt.

**12. Other Liabilities**

(in TEUR)	2006	2005
Payables to associated companies	891	650
Personnel related costs	71,586	48,392
Outstanding invoices for order related costs	125,532	70,037
Deferred income	5,485	2,830
Financial instruments carried at fair value	0	6,413
Liabilities from value-added tax	6,318	10,817
Liabilities from commissions	8,374	5,320
Other	103,252	46,546
	<b>321,438</b>	<b>191,005</b>
thereof other current liabilities	313,294	191,005
thereof other non-current liabilities	8,144	0
	<b>321,438</b>	<b>191,005</b>

The Managing Board considers that the carrying amount of other liabilities corresponds with their fair value.

**G. Notes to the Consolidated Income Statement****13. Sales**

(in TEUR)	2006	2005
Contract revenue recognized as sales in the current period	1,778,173	1,070,884
Revenue recognized due to after-sales service	609,011	430,741
Other	322,502	242,670
	<b>2,709,686</b>	<b>1,744,295</b>

**14. Other Operating Income**

(in TEUR)	2006	2005
Profit on disposal of fixed assets excluding financial assets	527	1,652
Exchange rate gains	18,700	17,864
Rental income	2,107	1,414
Other	19,897	5,429
	<b>41,231</b>	<b>26,359</b>

**15. Personnel Expenses**

(in TEUR)	2006	2005
Wages	93,684	61,662
Salaries	318,691	225,261
Pension expenses	18,072	14,043
Severance expenses	5,012	6,433
Social security and payroll related duties	66,820	43,500
Other social payments	14,654	12,656
	<b>516,933</b>	<b>363,555</b>

**16. Other Operating Expenses**

(in TEUR)	2006	2005
Exchange rate losses	11,663	13,108
Sales expenses	164,981	106,410
Administrative expenses	29,567	22,039
Other	143,672	95,807
	<b>349,883</b>	<b>237,364</b>

**17. Financial Results**

(in TEUR)	2006	2005
Income / expenses from associated companies	1,244	147
Other interest and similar income	24,632	11,273
Interest and similar expenses	(19,342)	(8,057)
Interest result	5,290	3,216
Other income / expenses from financing activities	(448)	11
	<b>6,086</b>	<b>3,374</b>

**18. Income Taxes**

(in TEUR)	2006	2005
Current tax expense	(45,107)	(30,170)
Changes in deferred taxes charged to the income statement	535	384
	<b>(44,572)</b>	<b>(29,786)</b>

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

(in TEUR)	2006	2005
Deferred tax assets	21,845	21,854
Liabilities for deferred taxes	(45,036)	(58,693)
Balance as at 31 December, as previously stated	(23,191)	(36,839)
Deferred tax relating to the origination and reversal of temporary differences		
income statement charge	535	384
charged to equity	1,532	13,264
	<b>(21,124)</b>	<b>(23,191)</b>
thereof		
Deferred tax assets	58,969	21,845
Liabilities for deferred taxes	(80,093)	(45,036)

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

(in TEUR)	2006	2005
Earnings before taxes (EBT)	165,925	110,024
Tax at the applicable tax rate (25% in 2006 and 25% in 2005)	(41,481)	(27,506)
Non-deductible amortization of goodwill	0	(146)
Tax effect of		
adjustment of using new tax rates	509	(246)
other changes	(3,600)	(1,888)
	(44,572)	(29,786)
Current tax expense	(45,107)	(30,170)
<b>Changes in deferred taxes charged to the income statement</b>	<b>535</b>	<b>384</b>

Deferred tax assets and liabilities for deferred taxes as at 31 December 2006 and 2005 are the result of the following temporary valuation differences between book values in the IFRS consolidated financial statements and the relevant tax bases:

(in TEUR)	2006		2005	
	Deferred tax		Deferred tax	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	1,805	(12,226)	2,031	(713)
Property, plant and equipment	2,945	(11,760)	2,841	(8,963)
Financial assets	7	(10,108)	5	(106)
Inventories	268,518	(2,065)	227,167	(507)
Receivables	2,733	(47,223)	2,458	(21,966)
Marketable securities and shares	0	(182)	0	(195)
Other assets	190	(93)	0	(16)
	<b>276,198</b>	<b>(83,657)</b>	<b>234,502</b>	<b>(32,466)</b>
Provisions	56,317	(36,198)	29,921	(35,816)
Liabilities	22,466	(275,355)	3,766	(221,190)
Deferred income	27	(13)	5,685	0
	<b>78,810</b>	<b>(311,566)</b>	<b>39,372</b>	<b>(257,006)</b>
Tax loss carry-forwards	60,264	0	7,198	0
<b>Deferred tax assets/liabilities</b>	<b>415,272</b>	<b>(395,223)</b>	<b>281,072</b>	<b>(289,472)</b>
Valuation allowance for deferred tax assets	(41,173)	0	(16,514)	0
Other	0	0	1,723	0
Offset within legal tax units and jurisdiction	(315,130)	315,130	(244,436)	244,436
<b>Net deferred tax assets and liabilities</b>	<b>58,969</b>	<b>(80,093)</b>	<b>21,845</b>	<b>(45,036)</b>

## 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 of the parent company by the weighted average number of ordinary shares outstanding during the period. Diluted basic earn-

ings per share are calculated by dividing the net profit for the period attributable to shareholders of the parent company by the weighted average number of shares with consideration of no par value share options.

## H. Segment Information

Segment information is prepared on the following basis:

### Business segments

The Andritz Group conducts its business activities in the following areas:

- a. Pulp and Paper (P+P)
- b. Hydro Power (HP)
- c. Rolling Mills and Strip Processing Lines (WB)
- d. Environment and Process (EP)
- e. Feed and Biofuel (FB)

### Geographical segments

The Group's activities are conducted predominantly in Europe, North America and Asia.

## 2006

### Business segment data

(in TEUR)	P+P	HP	WB	EP	FB	Transition	Total
Sales	1,304,149	467,851	450,540	366,521	120,625	0	2,709,686
Segment result before amortization of goodwill	75,945	22,201	30,568	20,476	10,649	0	159,839
Total assets	642,747	557,711	142,533	228,988	70,986	729,626	2,372,591
Total liabilities	649,677	531,075	155,756	161,987	34,438	425,118	1,958,051
Capital expenditure	21,658	13,498	2,346	6,510	1,656	0	45,668
Depreciation and amortization of tangible and intangible fixed assets	13,698	11,074	2,256	5,092	2,264	0	34,384
Share of net profit / loss of associates	562	0	0	439	243	0	1,244
Shares in associated companies	2,157	2,254	0	1,323	488	0	6,222

### Geographical segment data

(in TEUR)	Europe	North America	Asia	Rest of the world and consolidation	Total
External sales	1,018,071	433,331	735,845	522,439	2,709,686
Total assets	3,284,837	479,909	171,076	(1,563,231)	2,372,591
Capital expenditure	32,365	5,054	7,159	1,090	45,668

## 2005

## Business segment data

(in TEUR)	P+P	HP	WB	EP	FB	Transition	Total
Sales	1,032,876	52,644	275,939	289,209	93,627	0	1,744,295
Segment result before amortization of goodwill	63,601	2,618	15,887	17,685	7,242	0	107,033
Total assets	450,117	38,553	79,277	202,957	63,070	557,317	1,391,291
Total liabilities	566,005	31,283	129,555	116,646	28,661	190,389	1,062,539
Capital expenditure	13,561	3,411	2,171	6,659	932	0	26,734
Depreciation and amortization of tangible and intangible fixed assets	12,502	2,246	2,283	4,310	2,527	0	23,868
Share of net profit / loss of associates	(64)	0	0	211	0	0	147
Shares in associated companies	1,313	0	0	884	122	0	2,319

## Geographical segment data

(in TEUR)	Europe	North America	Asia	Rest of the world and consolidation	Total
External sales	583,309	299,204	447,259	414,523	1,744,295
Total assets	1,520,810	284,705	83,996	(498,220)	1,391,291
Capital expenditure	16,810	2,771	3,400	3,753	26,734

## I. Notes to the Consolidated Cash Flow Statements

Cash flows from acquisition  
of subsidiaries\*

(in TEUR)	Business Area			Total	Total
	P+P	HP	EP	2006	2005
Cash and cash equivalents	(4,965)	(162,886)	0	(167,851)	(2,121)
Marketable securities	(708)	0	0	(708)	0
Receivables	(15,110)	(314,506)	(337)	(329,953)	(11,801)
Inventories	(12,941)	(67,153)	(158)	(80,252)	(5,366)
Intangible assets	(8,569)	(36,405)	(278)	(45,252)	(2,097)
Property, plant and equipment	(18,734)	(71,261)	(42)	(90,037)	(8,773)
Financial assets	(858)	(15,774)	0	(16,632)	(27)
Accounts payable and accrued expenses	25,578	540,970	536	567,084	9,638
Financial debt	5,031	15,297	43	20,371	5,620
Net assets / liabilities acquired	(31,276)	(111,718)	(236)	(143,230)	(14,927)
Cash and cash equivalents	4,965	162,886	0	167,851	2,121
Goodwill	(8,849)	(80,706)	(925)	(90,480)	(7,945)
Changes in minority interests	0	0	0	0	183
Changes in equity attributable to shareholders of the parent company	0	(4,144)	0	(4,144)	0
Purchase price not yet paid	12,166	0	0	12,166	0
<b>Net cash flow</b>	<b>(22,994)</b>	<b>(33,682)</b>	<b>(1,161)</b>	<b>(57,837)</b>	<b>(20,568)</b>

\* Converted by exchange rates as per dates of transaction

## J. Financial Instruments

### a. 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 and performance of projects, cost overruns, etc.).

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 monitoring and management of financial risks are integral parts of Andritz's Group-wide accounting and controlling activities. Continuous controlling and regular reporting should secure to identify major risks at an early stage and to take counter-measures, if necessary.

For most of the orders, the risk of payment failure by customers is reduced by bank guarantees and export insurances. Risks for deliveries in countries with political risks typically are also insured. Interest and exchange rate risks are limited and controlled by using derivative financial instruments, in particular forward exchange contracts and swaps.

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's operations, productions and markets are located in various countries. The Group carries its forward exchange contracts at fair value. The remaining period of most of the cash flow hedges does not exceed one year.

Cash flow risks are minimized by the Group's cash management system which controls cash in- and outflows of all relevant Andritz affiliates. It also monitors the Group's cash pooling activities in order to optimize net financing income.

### b. Liquidity Risks

Due to Group-wide finance and liquidity planning Andritz maintains sufficient cash and cash equivalents or has 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 Group obtains guarantees from governmental export agencies or similar private institutions to reduce the risk of a counterpart defaulting. Furthermore there is no existent concentration of default risk due to high diversification of contract parties.

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 issued a bond for a nominal value of MEUR 100 with a repayment period of 6 years and a 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. The interest swap changes the fixed interest rate for the whole period to a variable interest rate based on 1 month's Euribor. In this way, there is the risk of a changing interest rate concerning the cash flows but the fair value of the bond is hedged.

In June 2006, the Company issued another bond for a nominal value of MEUR 200 with a repayment period of 7 years and nominal interest rate of 4.5% p.a. For this bond interest swaps have been used to hedge the risk from the fixed interest rate of the bond. The interest swaps change the fixed interest rate for the whole period to a variable interest rate based on 1 month's Euribor. In this way, there is the risk of a changing interest rate concerning the cash flows but the fair value of the bond is hedged.

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 interest rates at the balance sheet date were as follows:

	2006	2005
Cash on current accounts	1.9%	1.5%
Short term deposits	3.4%	2.2%
Securities, short term	7.0%	3.5%
Securities, long term	2.8%	2.5%
Overdraft on current accounts	5.2%	3.3%
Short term loans	10.7%	3.3%
Long term loans	5.3%	4.5%
Bond	4.3%	3.2%

## e. Fair Value of Financial Instruments

### Fair value calculation

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)	2006	2005
Forward contracts with positive fair values	15,039	4,886
Forward contracts with negative fair values	(3,774)	(11,299)
	<b>11,265</b>	<b>(6,413)</b>

The change in fair values of forward contracts from in total negative to in total positive fair values was mostly due to the change in fair values of forward contracts to hedge cash flows in US dollars because of the weakening of the US dollars against the Euro.

The fair value of the interest swaps presenting a total negative fair value as of end of 2006 was EUR 2,647 thousand (EUR 4,024 thousand as of end of 2005 being a positive fair value).

### Cash and cash equivalents, current and 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 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 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 interest rates available for debt with the same maturity profile. The fair value of non-current borrowings and other payables with variable interest rates approximates their carrying amounts.

The 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 IAS 39 reserve in equity:

(in TEUR)	2006	2005
<b>Balance as at 1 January</b>	<b>(3,172)</b>	<b>21,097</b>
<b>Movements in the period:</b>		
Gains and losses from changes in fair value	(104)	(11,744)
Deferred income taxes thereon	26	3,641
Transfers to income statement	5,557	(23,737)
Deferred income taxes thereon	(1,723)	7,358
Change in fair value of financial assets	130	314
Deferred income taxes thereon	(41)	(101)
<b>Balance as at 31 December</b>	<b>673</b>	<b>(3,172)</b>

**K. 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. Rent expense amounts to EUR 20,444 thousand in 2006 and EUR 15,763 thousand in 2005 respectively.

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

(in TEUR)	2006	2005
Next year	6,129	5,780
1 year to 5 years	15,745	11,940
After 5 years	8,934	2,444
	<b>30,808</b>	<b>20,164</b>

## L. Commitments

Commitments arising from contracts for expenditure on property, plant and equipment are only in the normal course of business. As of December 31, 2006 these commitments amounted to EUR 2,661 thousand (2005: to EUR 1,810 thousand).

## M. Contingent Liabilities

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 project related claims and disputes. Related risks have been analyzed 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, 2006, Andritz Inc., as subsidiary of the Company, was one of many defendants in a total of approximately 28 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 2,312 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. Andritz Inc. has not had a judgment of liability rendered against it in connection with an asbestos claim. Approximately 85 asbestos cases and about 22,678 claims against Andritz have been dismissed, and one claim has been resolved 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.

## N. Related Party Transactions

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

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

Transactions with associated companies and not consolidated companies were not material.

## Emoluments of the Managing Board

A provision of EUR 4,292 thousand in 2006 (EUR 4,428 thousand in 2005) was recorded for pensions of former Members of the Managing Board and their dependants; the current year expense for these pensions amounted to EUR 169 thousand for 2006 (EUR 548 thousand for 2005).

The following expenses have been recognized for the Managing Board:

(in TEUR)	2006	2005
Short-term benefits	9,490	7,613
Post-employment benefits	1,312	1,641
Share-based expenses	498	184
	<b>11,300</b>	<b>9,438</b>

The members of the Supervisory Board received remunerations in the amount of EUR 41 thousand (2005: EUR 45 thousand).

## O. List of Consolidated Subsidiaries

Material Affiliated Companies	Headquarters	Ownership Interest	
		direct	indirect
Andritz Denmark A/S	Esbjerg/Denmark	100%	
Andritz Sprout A/S	Esbjerg/Denmark		100%
Andritz (USA), Inc.	Roswell/Georgia (USA)	100%	
Andritz Inc.	Roswell/Georgia (USA)		100%
Andritz-Ruthner Inc.	Arlington/Texas (USA)		100%
Andritz Bird Inc.	Arlington/Texas (USA)		100%
Andritz S.A.S.	Vélizy/France	100%	
Andritz Selas S.A.S.	Gennevilliers/France		100%
Andritz Ingenieria S.A.	Madrid/Spain	100%	
Andritz GmbH	Hemer/Germany	6.25%	93.75%
Sundwig GmbH	Hemer/Germany		75%
Andritz Fiedler GmbH	Regensburg/Germany		100%
Andritz Separation GmbH	Cologne/Germany		100%
Andritz Fließbettssysteme GmbH	Ravensburg/Germany		100%
Andritz Kaiser GmbH	Bretten-Gölshausen/Germany		100%
Lenser Filtration GmbH & Co KG	Senden/Germany		100%
Andritz Oy	Helsinki/Finland	100%	
Savonlinna Works Oy	Savonlinna/Finland		100%
Andritz Ltd./Ltée.	Lachine/Canada	100%	
Andritz Fiber Drying Ltd.	Lachine/Canada		100%
Universal Dynamics Group Ltd.	Richmond/Canada		100%
Andritz AB	Örnsköldsvik/Sweden	100%	
Andritz Fiber Drying AB	Växjö/Sweden		100%
Andritz Ltd.	Staffordshire/Great Britain	100%	
Andritz-Kenflo Foshan Pump Co. Ltd.	Foshan/China	60%	
Andritz Technologies Ltd.	Foshan/China	100%	
Andritz Sprout B.V.	Geldrop/Netherlands	100%	
Andritz Brasil Ltda.	Curitiba/Brazil	100%	
Andritz KK	Tokyo/Japan	100%	
VA TECH HYDRO GmbH	Vienna/Austria	100%	
VA TECH HYDRO India Pvt. Ltd.	Bhopal/India		100%
VA TECH ESCHER WYSS Flovel Ltd.	Faridabad/India		100%
VA TECH ESCHER WYSS GmbH	Ravensburg/Germany		100%
Andritz-Küsters GmbH & Co KG	Krefeld/Germany		100%
VA TECH ESCHER WYSS S.L.	Madrid/Spain		100%
VA TECH ESCHER WYSS S.r.l.	Vicenza/Italy		100%
VA TECH HYDRO AG	Kriens/Switzerland		100%

Graz, February 16, 2007

Wolfgang Leitner

Franz Hofmann

Karl Hornhofer

Friedrich Papst

Bernhard Rebernik