

STATUS REPORT

- Sales reach new record level
- Order Intake and Order Backlog significantly increased

General economic conditions

In 2006, the global economy developed favorably, with all the major regions showing economic growth. The U.S. showed a mixed economic growth in 2006. The First Half of 2006 was characterized by very strong growth driven by continued high private consumption and capital expenditure. As a consequence and in order to dampen any inflationary development, the Federal Reserve Board (FED) increased key interest rates during 2006 in several steps to 5.25%, the highest level since 2001. In the Second Half of 2006, however, the U.S. economy showed signs of weakening growth, with real estate prices declining and private consumption slowing.

In Euroland, economic activities during the First Half of 2006 were very weak. However, during the summer months, Euroland's economy gained momentum, which was mainly driven by a strong increase in capital expenditures by companies as well as an increase in exports. As a consequence, the European Central Bank (ECB) increased key interest rates in several steps during the Second Half of 2006.

In Asia, economic activities remained very robust during 2006, with China showing continued strong economic growth.

Sources: OECD, WIFO, OeNB, RZB, Volksbank

Business development

Changes in consolidated companies/acquisitions

The following companies were acquired in 2006 and consolidated for the first time into the Group's financial accounts for 2006:

- 100% of Andritz Pilão Equipamentos Ltda. (a special manufacturer of welded refiner fillings and stock preparation equipment)
- 100% of VA TECH HYDRO (one of the world's leading suppliers of electro-mechanical equipment and services for hydropower plants)
- 100% of CONTEC Decanter Inc. (service company for the repair and maintenance of centrifuges and separators)
- 100% of BMH Wood Technology Oy (chip thickness screening technologies)
- 32% stake in Carbona Oy (engineering company developing wood gasification technologies)

- Remaining 40% stake in the Paper and Nonwoven Business Areas of Eduard Küsters Maschinenfabrik GmbH & Co. KG (supplier of state-of-the-art rolling and calendering technologies for paper and nonwoven textiles); Andritz now owns 100% of the company.
- Remaining 38.5% stake in VA TECH ESCHER WYSS Flovel Ltd. (Group member of VA TECH HYDRO); Andritz now owns 100% of the company.
- 100% of the Coater Division of Bachofen + Meier (a globally active specialist for technologies and systems for paper coating)

Sales reach new record level

As a result of continued strong organic growth and the first-time consolidation of VA TECH HYDRO as of July 1, 2006, Sales of the Andritz Group surged by 55.3% to 2,709.7 MEUR (2005: 1,744.3 MEUR). All Business Areas showed a solid development of Sales.

First-time consolidated companies in total contributed approximately 449.2 MEUR (of which 390.2 MEUR came from VA TECH HYDRO) to the Group's total Sales in 2006. Organic Sales growth of the Group, therefore, was approximately 29.6%.

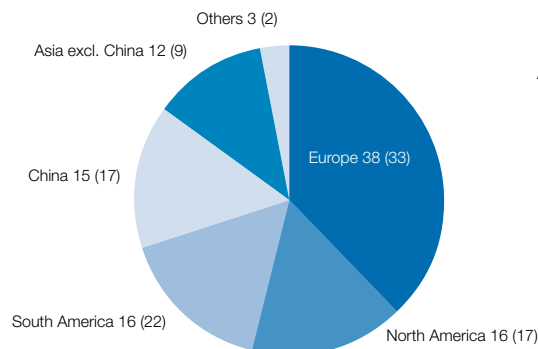
Order Intake and Order Backlog significantly increased

In 2006, the Andritz Group again showed a very favorable development of Order Intake, surpassing the very high level of 2005. At 2,891.0 MEUR, Order Intake was 46.4% higher than in 2005 (1,974.6 MEUR). In particular, the Pulp and Paper, and the Feed and Biofuel Business Areas were able to achieve strong organic growth rates. Order Intake of the Rolling Mills and Strip Processing Lines Business Area was slightly down compared to the very high level in 2005, which was influenced by the receipt of some major orders for stainless steel equipment from China.

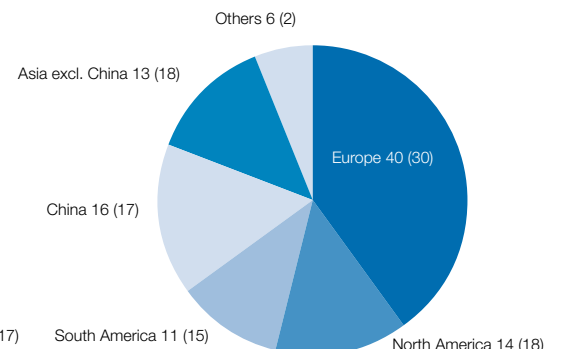
Order Intake of first-time consolidated companies amounted to approximately 524.6 MEUR in 2006, of which VA TECH HYDRO contributed 474.4 MEUR.

The Group's Order Backlog also showed a strong increase compared to the reference date of last year, surging to 3,397.1 MEUR as of 31.12.2006 (31.12.2005: 1,695.6 MEUR). VA TECH HYDRO added approximately 1,566.0 MEUR to the Group's Order Backlog as of 31.12.2006. Thus, the Andritz Group has a solid visibility with regard to Sales for the coming months.

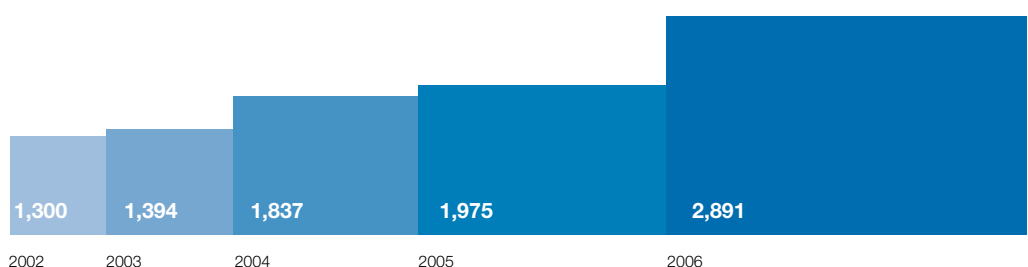
Sales by region
2006 (2005) in %



Order Intake by region
2006 (2005) in %



Order Intake of the Andritz Group (MEUR)



Significant increase in Earnings

In line with higher Sales, Earnings before Interest and Taxes (EBIT) increased to 159.8 MEUR in 2006 (2005: 106.7 MEUR). EBIT margin, at 5.9% for 2006, however, weakened compared to 2005 (6.1%). This was mainly due to both the first-time consolidation of VA TECH HYDRO, whose profitability reached 3.7% in the Second Half of 2006 as expected, and the slight profitability decline of the Pulp and Paper Business Area.

The financial result, at 6.1 MEUR in 2006, was significantly higher than in 2005 (3.4 MEUR). This was mainly due to both the higher average cash level and the higher interest rates compared to last year. The tax rate in 2006, at 26.9% in 2006, was practically unchanged compared to 2005 (27.0%).

Net Income after deduction of Minority Interests amounted to 118.5 MEUR (2005: 78.7 MEUR).

Net worth position and capital structure

The development of total assets as of 31.12.2006 was primarily influenced by the first-time consolidation of VA TECH HYDRO and the issue of the 200 million Euro corporate bond in June 2006. As a consequence, total assets of the Andritz Group increased to 2,372.6 MEUR as of 31.12.2006 (1,391.3 MEUR as of 31.12.2005).

As of 31.12.2006, the Group's net liquidity (cash and cash equivalents minus interest-bearing financial liabilities) was 365.7 MEUR, again exceptionally high as of the end of 2005 (31.12.2005: 383.9 MEUR).

The equity ratio as of 31.12.2006 was 17.5% (31.12.2005: 23.6%). This decline mainly results from the first-time consolidation of VA TECH HYDRO and the bond issue.

Shares and shareholder structure – disclosure according to § 243a UGB

The share capital of Andritz amounts to 94,510,000 Euros or 13 million no par bearer shares. There are no limitations concerning the voting rights or the transfer of shares. Approximately 26% of the shares are held by Certus Beteiligungs GmbH, whose Managing Director is Wolfgang Leitner, Chief Executive Officer of Andritz.

At present, there is no authorized capital. On March 30, 2005, the Annual General Meeting of Shareholders authorized the Managing Board to buy back up to 1,300,000 shares, i.e. 10% of the total of shares of Andritz AG, between October 1, 2005 and March 31, 2007. There are no powers of the members of the Managing Board, especially regarding the possibility to issue or buy-back shares, that do not result directly from legal stipulations.

As far as is known to the company, there are no holders of shares with special controlling rights. Employees exercise their voting rights directly.

Furthermore, there are no stipulations regarding the appointment and removal of the members of the Managing Board and the Supervisory Board and modifications of the company's Articles of Association that do not result directly from legal stipulations.

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

No compensation agreements exist between the company and the members of its Managing Board and Supervisory Board or any employees in the event of a take-over bid. →

Key financial figures of the Andritz Group

| MEUR | 2006 | 2005 | Change in % |
|------------------------|---------|---------|-------------|
| Sales | 2,709.7 | 1,744.3 | +55.3% |
| EBITDA | 194.2 | 130.9 | +48.4% |
| EBIT | 159.8 | 106.7 | +49.8% |
| Earnings before Taxes | 165.9 | 110.0 | +50.8% |
| Net Income after Taxes | 121.4 | 80.2 | +51.2% |

Key balance sheet ratios

| | 2006 | 2005 |
|--|-------|--------|
| Equity ratio (in %) | 17.5 | 23.6 |
| Net liquidity (in MEUR) | 365.7 | 383.9 |
| Capital employed ¹⁾ (in MEUR) | 209.7 | 21.1 |
| Gearing ²⁾ (in %) | -88.2 | -116.8 |

1) Capital employed: Net working capital plus fixed assets
 2) Gearing: (Interest-bearing liabilities minus cash and cash equivalents) divided by Shareholders' Equity including Minority Interests

Total assets 2006: 2,372.6 MEUR

Assets

| | | |
|-----------------------|------------------------|--------------------------------|
| 599.5 MEUR | 1,062.9 MEUR | 710.2 MEUR |
| Long-term assets: 25% | Short-term assets: 45% | Cash and cash equivalents: 30% |

Shareholders' Equity and Liabilities

| | | | |
|--|----------------------------|----------------------------------|-----------------------------|
| 414.5 MEUR | 344.5 MEUR | 270.3 MEUR | 1,343.3 MEUR |
| Shareholders' Equity incl. Minority Interests: 17% | Financial liabilities: 15% | Other long-term liabilities: 11% | Short-term liabilities: 57% |

Risk management and treasury

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 and markets served by the Group, the Group's business, and major orders. Andritz has a long-established Group-wide risk management system 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 ensure that major risks are identified at an early stage and counter-measures are taken, if necessary.

For most of the orders, the risk of payment failure by customers is reduced by bank guarantees and export insurances. Risks related to deliveries in countries with medium to high 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.

Net currency exposure of orders in non-Euro currencies, mainly US dollars, British pounds, and Swedish crowns, is hedged by forward contracts. 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.

However, there is no guarantee that the monitoring and risk control systems are sufficiently effective.

Capex and cash flow

In 2006, investments in tangible and intangible assets amounted to 45.7 MEUR (2005: 26.7 MEUR). This increase of 71.2% compared to 2005 was mainly due to VA TECH HYDRO, which added 7.7 MEUR to the Group's investments in tangible and intangible assets in 2006. The Andritz Group's investments in 2006 mainly encompassed construction works for building and workshop modernizations and extensions at some of the Group's sites, as well as software for the ongoing Group-wide implementation of SAP.

Cash flow from operating activities amounted to 143.1 MEUR, down compared to last year (2005: 237.3 MEUR).

Effects from exchange rates

Changes in exchange rates are hedged by forward rate contracts.

Non-financial performance indicators

Manufacturing

The reporting year was characterized by very high capacity utilization at all Andritz manufacturing sites. Increasing procurement problems in the material and semi-finished goods markets had to be countered by extremely high commitment and flexibility of all employees. Due to the very high Order Backlog, employment of temporary workers and outsourcing of manufacturing orders was further increased.

Investments in automated manufacturing processes and projects to further improve competitiveness and reduce lead times were successfully implemented. In the strongly growing markets of China and South America, manufacturing capacity is being set up and/or extended systematically.

Human Resources

Continuous training and further development of working skills of all Andritz employees once again were the main goals of Human Resources activities in 2006. All relevant vacancies within the Andritz Group were well filled with highly qualified candidates. Recruiting activities are ongoing to meet future staff requirements and to support internal growth of the Andritz Group.

Environmental issues

In 2006, the main focus of the Andritz Group with regard to environmental issues was on reducing air pollution, saving natural resources, minimizing electricity consumption, reducing noise pollution, and providing training for new employees and apprentices. For example, at the Graz production site, the change of the office building's heating system from oil to natural gas led to a 70% reduction of NO_x emissions and a 50% reduction of carbon monoxide emissions. Improved and more efficient lighting systems in the workshops resulted in savings of 25,000 kWh of electricity consumption in 2006. Training in work safety, fire protection, and environmental protection for new employees and apprentices was organized at most Group sites.

Key cash flow ratios

| | 2006 | 2005 |
|--|-------|-------|
| Cash flow from operating activities | 143.1 | 237.3 |
| Capital expenditure ¹⁾ | 45.7 | 26.7 |
| Free cash flow ²⁾ | 100.1 | 213.2 |
| Free cash flow per share ³⁾ | 7.7 | 16.4 |

1) Additions to tangible and intangible assets

2) Cash flow from operating activities minus capital expenditure plus payments to sale of tangible and intangible assets

3) Free cash flow divided by 13 million shares (= total number of Andritz shares)

Research and Development

In 2006, the Andritz Group invested approximately 35.4 MEUR in Research and Development (2005: 27.1 MEUR). More than 300 people work in the Group's research centers in the USA, Austria, Finland, Switzerland, and France to develop new processes and equipment and to expand Andritz's technological leadership.

The Divisions of the **Pulp and Paper Business Area** focus their R&D activities on providing technologies which help customers maximize specific production parameters while at the same time reduce the use of media to a minimum (higher efficiencies and yields with less raw materials, natural resources, and energy consumption).

R&D work of Andritz has also focused on the development of machines and systems for pulp mills with capacities of over 3,000 tons per day. In addition to the technology, significant advances have been made in standardization, construction techniques, and automation to shorten the time between installation and the customer's revenue generation of the installed equipment.

Andritz's response to minimizing environmental impact and sustainability is evident in the new systems which have been adapted to efficiently process annual plants and plantation fibers and technologies which consume much less energy than their predecessors. As part of this, considerable R&D effort is being employed to more effectively utilize biomass as an energy source. Not only does this substantially reduce fossil fuel-based CO₂ emissions, but it also enables many more pulping operations to become virtually energy self-sufficient.

In the area of wood processing, new wood processing applications were under intensive development to contribute to the sustainability of the forest products industry. Continued development of the RotaBarker™, a dry debarking technology which minimizes wood losses, now makes the technology also suitable for processing softwood logs after its successful application for eucalyptus. New types of debarking teeth are being tested to see if debarking efficiency can be improved even further.

Technology development in the Fiberline Division continues to focus on lowering the investment cost per ton of pulp produced. This is being accomplished through process simplification, increase of specific capacity, standardization, and modularization. In addition, the work is continuing to make the pulping process more sustainable. Recently, the development work in cooking and brownstock processing has resulted in higher yield and better fiber recovery from uncooked chips. For hardwoods, these yield improvements can result in up to 5% less wood usage for the same pulp output.

Due to continuously rising energy costs for pulp and paper producers, a development program was launched in the recovery area to introduce advanced biomass-fired power boilers to the industry. High oil prices have triggered growing interest in using biofuels in lime kilns, which are still significant consumers of fossil fuels in the pulp mill. The next generation of High Energy Recovery Boilers (HERB) is taking shape through successful installations recently started up.

For chemical recovery applications, a recently launched product for lime mud dewatering – the LMD-Filter™ – has been further enhanced to significantly reduce soda levels in the lime kiln feed.

In the area of fiber preparation, Andritz is focusing its R&D for stock preparation equipment on increasing system efficiency and reducing the amount of energy consumed. The results of this effort in the last year are the introduction of new low-consistency and high-consistency pulpers for both virgin and recycled pulp slushing, as well as the new family of low-consistency refiners.

For mechanical pulping processes, a pre-treatment process for wood chips prior to the refining stage (RT pretreatment) has been introduced to the market. Additionally, work is proceeding on the application of low-consistency refiners as last stage which further reduces energy consumption and also simplifies the process. The trend in sustainable development is to utilize different or new wood species in the production of paper, especially in countries where wood is rare. One part of the R&D work has focused on the selection and testing of such species (eucalyptus, acacia, birch, maple, bagasse, reed, and kenaf). In combination with the use of new raw materials, emphasis is on reducing the total effluent dispatch from the mill.

Technology development for pulp drying lines continues to focus on lowering the investment cost per ton of pulp produced. The main R&D thrust is to further increase the capacity of a single drying line from 3,500 t/d today to over 4,000 t/d or over 1,200,000 t/y of pulp. Energy consumption of the entire drying line has been reduced by simplifying the process and optimizing the biggest energy "consumers" in the line (e.g. thermal energy and vacuum sources).

In the area of tissue production equipment, research and development has focused on the provision of smaller fully-standardized and pre-engineered tissue machine packages and on the reduction of energy consumption for high-quality soft and water absorbent tissue paper. Another important focus was to develop advanced solutions for the modernization of board and packaging paper machines with integration of the press and calendering products of newly-acquired Küsters as well as the coating technology of Bachofen + Meier.

Development work in paper finishing has been concentrating on advanced calendering technologies in combination with the shoe press and on coating application for wider and faster paper and board machines. The product group Nonwoven is aiming for better web quality for a wider variety of nonwoven products.

The **Hydro Power Business Area** has developed a wide variety of very advanced hydraulic designs. In the field of Francis turbines, the new generation of runner designs was the key to successful upgrading projects. In the field of low head units, new axial runners for existing units with special casing designs have been developed. The optimization of runner casing interaction has also been the key success factor in the upgrading of Pelton units.

Between the hydraulic designs of large tailor-made pumps for water transport and the designs for pump turbines and pumps for storage power plants, very attractive synergy potentials have been identified and already exploited. A further interactive R&D initiative has been launched with respect to the field assessment of existing hydro plants, both from the mechanical and the electrical point of view. →

The large-pumps program was extended by the addition of Francis pumps. The development program further includes extensions for and the improvement of semi-axial and axial pumps, the latter as bulb pumps. Other main points in the development program include materials and coating for components sensitive to wear, shaft bearing assembly, and rotor dynamics for main coolant pumps.

R&D activities of the **Rolling Mills and Strip Processing Lines Business Area** focused on the standardization and optimization of push pickling lines and mixed acid recovery plants for a nitrate-free stainless steel pickling process. The combination of the total mixed acid recovery process (PYROMARS) and a patented rinse water recycling system has led to an economical and ecological breakthrough in stainless steel processing.

A new series of roll grinding machines was developed, which enlarge the diameter of rolls that can be ground on machines to 650 mm, meeting the closest tolerances. Special attention was paid to further optimize the design of heavy shears and multi-purpose levelers, covering a wide range of material thickness.

A new series of punching and metal-forming presses was introduced to the market. The new press generation, while continuing to ensure the well-known quality and reliability features, is based on an improved modularized design platform, allowing flexible adaptation to different customer demands.

Research work of the **Environment and Process Business Area** continued to concentrate on the optimization of the centrifuge product range in order to further enhance performance and/or reduce manufacturing costs. Another focus in the area of separation technologies was the standardization of the filter press product family in order to shorten delivery times and reduce costs. In sludge drying, a combined drying plant using a belt and a fluid bed dryer was developed and a patent was filed. The target is to use process synergies of both systems to achieve the best energy efficiency.

In response to the increasing requirements for feed and food safety, the **Feed and Biofuel Business Area** has launched a series of products in support of controlled thermal treatment and sterilization of feed. In the extrusion area, a new generation of all stainless steel Combizone dryers was developed providing full corrosion protection and integrated self-cleaning features for customers in the aquatic feed and pet food businesses. In the biofuel area, development projects with the target to optimize production efficiency of wood pelleting plants are underway.

Outlook

Andritz expects its relevant markets to continue to develop favorably in 2007. Assuming a continued overall positive development of the global economy, project activity should remain on a solid level in all Business Areas.

For **Pulp and Paper**, investments in new plants or production lines are expected to remain concentrated on South America, Australia, and Asia, where one or the other greenfield pulp mill and several major modernization projects are currently being evaluated. For Europe and North America, only selective investments in new lines are expected. However, investments in modernization and refurbishment of existing plants should remain on a solid level.

For the **Hydro Power** Business Area, project activity is expected to continue on an attractive level, mainly driven by the continuous growth of the global power generation market, with hydropower as the most important source of renewable energy for electricity generation. In Asia and South America, investments should focus on the construction of new hydropower stations. Due to the ageing installed capacities in North America and Europe, several modernization and capacity expansion projects are underway in these regions. In addition, the demand for pumped storage power stations in Europe to secure grid stability has increased.

In the area of **Rolling Mills and Strip Processing Lines**, investment activities will continue to focus on China and Europe, with some projects also coming up in North America. Project activity will increasingly shift from big lines to specialized production equipment and plants for high-quality stainless steel and carbon steel. Increased project activity is expected for India.

For **Environment and Process**, high project activity for both sludge dewatering and drying equipment should continue. Increased stringent environmental regulations, especially in Europe, will remain the key growth drivers in the future. In the area of mining, the current global shortage of raw materials, such as coal, iron ore, and other minerals, should lead to increased investments in solid/liquid separation equipment.

In the area of **Feed and Biofuel**, project activity for wood pelleting equipment should remain on a very high level, in particular in North America, Europe, and Russia. The aquatic feed industry is also expected to develop favorably, with both marine and freshwater farming showing good investment activity for plant upgrades as well as new plants, especially in Asia, South America, and Europe.

As a result of the high Order Backlog of over 3.3 billion Euros as of the end of 2006, and the full-year consolidation of VA TECH HYDRO, Andritz expects Group Sales for the full year of 2007 to reach approximately 3 billion Euros (2006: 2,709.7 MEUR). In line with the Sales increase, Net Income of the Group is also expected to increase compared to 2006.

Significant events after the balance sheet date

No significant events have occurred after the balance sheet date. ■

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