

CORPORATE RISKS

The Andritz Group is a globally-operating company serving a variety of industrial markets and customers. As such, the Group is subject to certain general and industry-specific risks. To identify, manage, and mitigate these risks, Andritz has a long-established Group-wide Management Steering Committee whose main task is to identify nascent risks early and to take countermeasures. This is an important element in the active risk management within the Group. The risks described below, and the effects these risks may have on the business development of Andritz, have been taken into account in the Group's corporate planning.

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

RISKS RELATED TO THE INDUSTRIES IN WHICH THE GROUP OPERATES

Volatility of incoming orders

Some customers and industries served by the Andritz Group are directly dependent on the general economic development and subject to frequent fluctuations in demand for their products. This is especially true of the Pulp and Paper, and the Rolling Mills and Strip Processing Lines Business Areas, but all Business Areas can be affected. The prices for these products are, in part, dependent on the prevailing relationship between supply and demand. Possible price fluctuations are, therefore, apt to have a direct influence on each customer's capital investment decisions, with subsequent influence on the Group's Order Intake. This may lead to volatility in the development of Order Intake of the Group.

Customer concentration

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

Uncertainty of future contracts

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

Safety and environmental matters

The Group's operations are subject to numerous local, national, and supranational environmental regulations. The Group uses and generates hazardous substances in its manufacturing operations. In addition, many of the Group's current and former properties are, or were, used for industrial purposes, and disposal of waste at disposal sites has been arranged. It is possible that in the future the Group may be subject to liabilities relating to the investigation and cleanup of contaminated areas.

In addition, most of the Group's systems involve technologies that pose the risk of serious injury, death, and property damage. Several systems involve the use of dangerous and hazardous chemicals and materials, and the Group provides installation and other services on industrial sites containing dangerous and hazardous chemicals and materials. In the event of an accident, including but not limited to a spill of hazardous materials, a fire, or explosion, the Group could be responsible for extensive property damage, personal injury, death, and environmental remediation. While the Group maintains insurance policies covering some of these risks, there is no assurance that such insurance will be sufficient to cover the risk.

RISKS RELATED TO THE GROUP'S BUSINESS

Currencies

The Group has operations and subsidiaries in a large number of countries outside Euroland, and a significant portion of its Sales and costs are denominated in non-Euro currencies, mainly in U.S. dollars and British pounds. The currencies in these countries are subject to fluctuations in exchange rates. Although the Group attempts to hedge the net currency exposure of the orders to mitigate the currency risk, currency fluctuations can result in the recognition of exchange rate losses in the Group's financial statements. →

Developments of exchange rates may also have translation effects on the Group's Sales and Earnings, whose values are converted into Euros. In addition, shifts in exchange rates may affect Andritz's position relative to its competitors, although most of the main competitors of Andritz are also based in Euroland. As some of Andritz's major customers are based outside Euroland, changes in exchange rates could lead to a delay of project decisions by those customers. Also, the Shareholders' Equity of the Andritz Group is not hedged and is thus susceptible to being affected by changes in the exchange rate.

Competitive position

The Andritz Group does business in very competitive markets. Some of the markets in which the Group competes are highly fragmented, with a few large, international manufacturers competing against each other and against a high number of smaller, local companies. This has, in some cases, adversely impacted sales margins realized by certain of the Group's businesses. The Andritz Group invests approximately 3% of total Sales in Research and Development and has so far been able to offer its customers the latest technological developments. There is, however, no assurance that the Group can maintain and defend this position in the future.

To the extent the Group's competitive position can be traced to proprietary technology, the increase globally in piracy and reverse engineering may also have an adverse effect on the Group's competitive position.

Acquisition and integration of complementary businesses

One of the Group's main strategic goals is to become a comprehensive supplier of systems and equipment in all of its Business Areas through organic growth and complementary acquisitions. In the course of implementing this strategy since 1990, the Group has acquired and integrated a number of businesses with worldwide operations.

However, no assurance can be given that the Group will be successful in identifying and acquiring appropriate acquisition candidates in the fu-

ture, or that suitable candidates will be available, or that sufficient financing will be available. Furthermore, although Andritz has an excellent track record of integrating newly-acquired businesses, it is possible that in connection with existing or future integration efforts, including the ongoing integration of VA TECH HYDRO, the integration will not succeed and that planned objectives and synergies are not realized, or the Group may be exposed to new or legacy risks that have not been properly managed or identified.

Legal proceedings

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

As of December 31, 2007, Andritz Inc., a subsidiary of the Andritz Group, is one of many defendants in a total of approximately 26 asbestos cases in the USA. In aggregate, the cases involve 608 plaintiffs. Nearly all of these cases involve claims by multiple plaintiffs against multiple defendants. Andritz Inc. does not believe it should be found liable in connection with any of these claims and plans to vigorously defend each claim.

Compliance matters

The Andritz Group is subject to various laws, including anti-trust and anti-bribery laws in Austria and other countries where the Andritz Group conducts business. To make sure the Group does not violate any such laws it has a number of compliance policies in place. In particular, it has introduced global compliance policies prohibiting the violation of applicable anti-trust laws and anti-bribery laws as well as other rules of conduct. While the Group attempts to make sure, through

a multitude of measures, that such policies are followed, there can be no assurance that no violations occur. Any such violation could have a materially adverse impact on the financial position and reputation of the Group.

RISKS RELATED TO MAJOR ORDERS AND OTHER CONTRACTS

Payment risks from customers

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

Performance risk of projects

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

Cost overruns

A substantial majority of the Group's projects are based on fixed price contracts awarded on a competitive bidding basis. The sales and operating margins realized in a fixed price contract may vary from original estimates as a result of changes in costs, especially fluctuating material costs, and productivity over the term of the contract, especially on projects that include plant-wide engineering and/or construction.

In addition, since certain parts of the manufacture of the Group's supplies are outsourced, the Group may be compelled to quote at a fixed price to the customer without knowing exactly how much the purchased parts will cost. While estimates are made using empirical data and quotes from potential suppliers, these may not be accurate. The Group has experienced significant losses on certain past and pending projects in this regard and similar difficulties and losses may occur in the future in a way that would adversely affect the Group's financial condition.

EPC/turnkey contract risks

In a growing number of the Group's projects, Andritz has responsibility for plant-wide engineering and/or construction in addition to the supply of Andritz equipment and systems. These turnkey or EPC contracts involve the risks discussed above, but also involve risks relating to greater on-site responsibilities including environmental matters, local labor conditions, and construction and installation risks. Additionally, the Group is exposed to risks inherent in managing the third parties that perform construction, installation, and engineering services on these projects. The Group has put risk management procedures in place, including insurance programs, contract policies, and project management discipline to reduce these EPC-related risks. However, there is no guarantee that these systems are sufficient to prevent negative financial consequences.

Government contracts

A significant amount of the Group's Hydro Power business involves projects with governmental entities. These projects can present the performance, liability, and EPC/turnkey contract risks described above. Due to public bid requirements and local laws, it may not be possible for the Group to achieve its desired contractual protections and it may thus remain more exposed to such risks in connection with these projects.

Limitations of liability

Liabilities arising out of the Group's contracts may include liabilities for Andritz's customers' lost profits and other liabilities that can vastly exceed the value of the contract in question. While the Group attempts to include in its contracts appropriate limitations of liability, there can be no assurance that appropriate limitations will in fact be in place in all contracts or that such a limitation will be enforceable under the applicable law.

RISKS RELATED TO THE CAPITAL MARKETS

Dependence on the development of international financial markets

Apart from company-related occurrences, the development of the Andritz share price is also dependent on price fluctuations within international financial markets. Possible price fluctuations and high volatility of major stock markets may adversely affect the price of Andritz shares.

Recommendations by research analysts

As a publicly-listed company, Andritz is regularly analyzed by financial analysts and institutional investors. Analysts' recommendations to buy or sell Andritz shares and subsequent investment decisions by shareholders may lead to considerable price fluctuations of the shares. The Andritz Group has consistently followed a policy of open and transparent information exchange with shareholders and the financial community to minimize unfounded price fluctuations of its shares.

Active trading of Andritz shares

The high level (approximately 70%) of public free float of the Company's total outstanding shares has led to active trading in Andritz shares on the Vienna Stock Exchange. However, there is no assurance that active trading will be maintained in the future. If active trading is not maintained, the liquidity and the market price would be adversely affected and investors might not be able to sell their shares at what they perceive to be an acceptable price. It could also result in the removal of Andritz shares from the ATX, the leading index of the Vienna Stock Exchange. ○