ANNUAL FINANCIAL REPORT 2007

ANDRITZ

KEY FIGURES 2003-2007 OF THE ANDRITZ GROUP (IFRS)

FINANCIAL FIGURES IN MEUR

	2007	2006*	2005	2004	2003
Order Intake	**3,750**	2,891	1,975	1,837	1,394
Order Backlog as of 31.12.	**3,843**	3,397	1,696	1,439	1,054
Sales	**3,283**	2,710	1,744	1,481	1,225
EBITDA[1)]	**242**	194	131	115	84
EBITA[2)]	**201**	163	107	93	63
Operating Result (EBIT)	**193**	160	107	76	49
Earnings before Taxes (EBT)	**198**	166	110	77	49
Net Income	**136**	121	80	54	31
Cash flow from Operating Activities	**33**	143	237	208	5
Capital Expenditure[3)]	**57**	46	27	29	21
Employees as of 31.12. (excluding apprentices)	**12,016**	10,215	5,943	5,314	4,771
Fixed assets	**630**	609	308	276	279
Current assets	**1,878**	1,777	1,083	877	688
Equity[4)]	**482**	415	329	277	239
Provisions	**395**	386	190	160	150
Liabilities	**1,631**	1,585	873	717	577
Balance sheet total	**2,508**	2,386	1,391	1,153	967
EBITDA margin (%)	**7.4**	7.2	7.5	7.8	6.9
EBITA margin (%)	**6.1**	6.0	6.1	6.3	5.1
EBIT margin (%)	**5.9**	5.9	6.1	5.1	4.0
Net Income/Sales (%)	**4.1**	4.5	4.6	3.6	2.5
ROE (%)[5)]	**28.2**	29.2	24.3	19.5	13.0
Equity Ratio (%)	**19.2**	17.4	23.6	24.0	24.7
EV[6)]/EBITDA	**7.9**	9.1	6.3	4.4	5.2
Depreciation and amortization/Sales (%)	**1.4**	1.3	1.4	1.5	1.7
Impairment resp. amortization goodwill/Sales (%)	**0.1**	0.0	0.0	1.1	1.2

* restated

STOCK EXCHANGE RELATED FIGURES

	2007	2006	2005	2004	2003
Earnings per share (EUR)	**2.57**	2.31	1.53	1.03	0.57
Dividend per share (EUR)	**1.00**[7)]	0.75	0.50	0.35	0.25
Payout ratio (%)	**38.9**	32.5	32.6	34.3	44.2
Equity attributable to shareholders per share (EUR)	**9.07**	7.86	6.25	5.18	4.50
Market Capitalization as of end of period (MEUR)	**2,155.4**	2,135.9	1,207.1	729.3	493.4

Note: On May 3, 2007, the Andritz share was split in a ratio of 1:4; historical share price data and stock exchange related figures were adjusted accordingly.

Notes

1) EBITDA: Earnings before Interest, Taxes, Depreciation, and Amortization; 2) EBITA: Earnings before Interest, Taxes, Amortization of identifiable assets acquired in a business combination and recognized separately from goodwill at the amount of 5,967 TEUR (2006: 2,895 TEUR) and impairment of goodwill at 2,771 TEUR (2006: 0 TEUR);

3) Additions to property, plant, and equipment and intangible assets; 4) Equity: Total shareholders' equity incl. minority interests;

5) ROE (Return On Equity): Net Income/Equity; 6) EV (Enterprise Value): Market capitalization based on year-end closing price minus net liquidity;

7) Proposal to the Annual General Meeting

STATUS REPORT

GENERAL ECONOMIC CONDITIONS

In 2007, the global economy showed an overall solid, but regionally and temporally varied development. In the USA, economic growth weakened somewhat during the First Half of 2007, with private consumer spending and capital investments by companies declining, while at the same time inflation remained at a high level. In the Second Half of 2007, the economic development was mainly influenced by the subprime market crisis and the resulting collapse of the home mortgage market. The slump in housing and real estate prices led to the fear that consumer spending in the USA – the main contributor to the strong GDP growth during recent years – will decline significantly in the future, thus leading to a sustained slowdown of economic activities or potentially to a recession. As a consequence, the Federal Reserve Bank (FED) cut key interest rates in several steps from 5.25 to 4.25%, and provided an extensive amount of cash to the banking system to counter a potential liquidity crunch.

In Euroland, the economic activities developed very strongly during 2007. This was mainly driven by unchanged high domestic consumption and strong exports, despite the increasing strength of the Euro against the U.S. dollar. As a result, the European Central Bank (ECB) increased key interest rates to 4% in June 2007. During the subprime crisis, the ECB also injected cash to stabilize the liquidity crisis, but left key interest rates unchanged due to the continued strong economic activities.

In Asia, economic activities also remained very robust during 2007, with fast growth in both private consumption and corporate capital expenditure. GDP growth was particularly strong in China and India.

Source: OECD

BUSINESS DEVELOPMENT

Changes in consolidated companies/ acquisitions

The following material companies were not, or only partially, included in the Andritz Group's consolidated financial statements of the reference year 2006:

- Küsters Group (rolling and calendering technologies for paper and nonwoven textiles)
- Pilão Equipamentos Ltda. (services and and products for the pulp and paper industries)
- VA TECH HYDRO GmbH and its subsidiaries (one of the world's leading suppliers of electromechanical equipment and services for hydropower plants)
- CONTEC Decanter Inc. (service company for the repair and maintenance of centrifuges and separators)
- Coater Division of Bachofen + Meier (a globally active specialist for technologies and systems for paper coating)
- Sindus Human Technology (service company for pulp and paper plants)
- Tigép Kft. (production of heavy machinery, especially for Hydro Power)

Sales

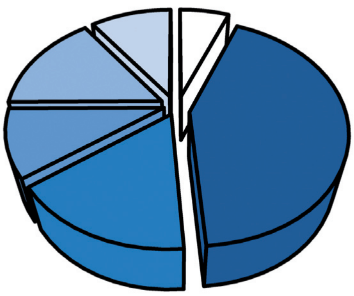
Sales of the Andritz Group developed very favorably in 2007. At 3,282.5 MEUR, they increased by 21.1% compared to 2006 (2,709.7 MEUR), thus reaching a record level. In particular, Sales of the Pulp and Paper, Hydro Power, and Feed and Biofuel Business Areas increased significantly compared to last year. Organic Sales growth of the Group in 2007 was approximately 9.4%.

Order Intake and Order Backlog

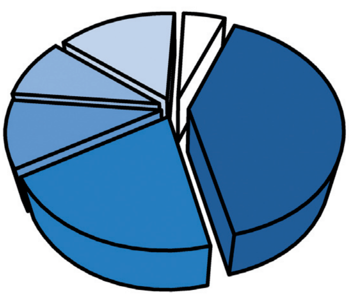
The Order Intake of the Andritz Group amounted to 3,749.5 MEUR in 2007, thus increasing significantly compared to the very high level of 2006 (2,891.0 MEUR). The Rolling Mills and Strip Processing Lines, Hydro Power, and Feed and Biofuel Business Areas achieved strong organic growth rates of the Order Intake. Organic growth of the Order Intake in 2007 was approximately 14.7%.

The Group's Order Backlog also showed a strong increase compared to the reference date of last year, surging to 3,843.3 MEUR as of 31.12.2007 (31.12.2006: 3,397.1 MEUR). Thus, the Andritz Group has a solid visibility with regard to Sales for the coming months.

**Sales by region
2007 (2006) in %**



**Order Intake by region
2007 (2006) in %**



Earnings

In step with Sales, Earnings before Interest and Taxes (EBIT) increased to 192.6 MEUR in 2007 (2006: 159.8 MEUR). All Business Areas, in particular the Hydro Power, Rolling Mills and Strip Processing Lines, and Feed and Biofuel Business Areas, showed a solid and satisfactory development of Earnings, thus more than offsetting the dilutive effect of VA TECH HYDRO on the Group's profitability expected at the time of the acquisition. As a result, the Group's EBIT margin, at 5.9% for 2007, was unchanged compared to last year (2006: 5.9%).

The financial result, at 5.5 MEUR in 2007, was lower compared to 2006 (6.1 MEUR). The tax rate in 2007 amounted to 31.3% (2006: 26.9%).

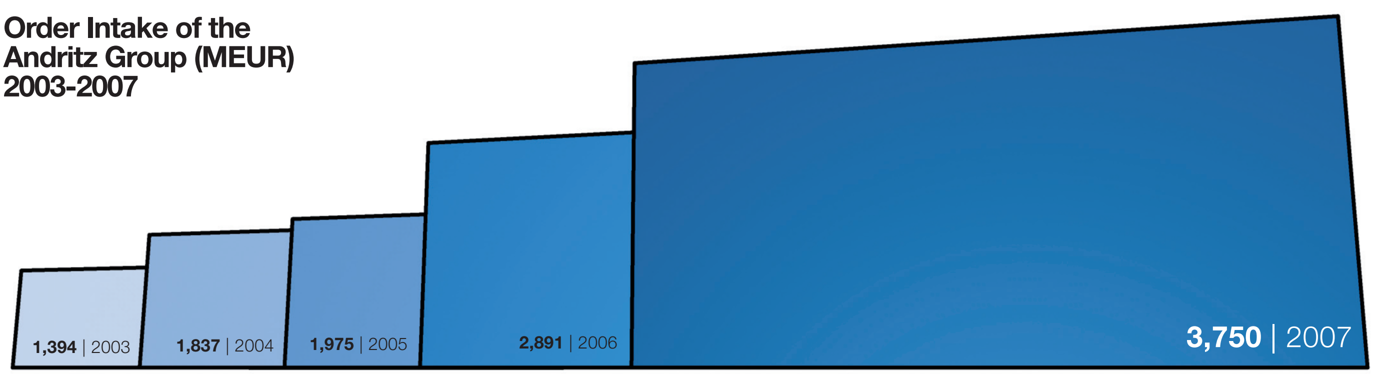
Net Income after deduction of Minority Interests amounted to 132.7 MEUR (2006: 118.5 MEUR).

Net worth position and capital structure

The balance sheet structure as of 31.12.2007 showed no major changes compared to 31.12.2006. Total assets as of 31.12.2007 amounted to 2,507.5 MEUR, thus 121.4 MEUR higher than as of 31.12.2006 (2,386.1 MEUR). The net working capital as of 31.12.2007 was 99.1 MEUR (31.12.2006: -93.6 MEUR).

The Group's net liquidity (cash and cash equivalents minus financial liabilities) as of 31.12.2007 amounted to 246.5 MEUR, thus significantly below the exceptionally high level as of 31.12.2006 (365.7 MEUR). The equity ratio as of 31.12.2007 was 19.2% (31.12.2006: 17.4%).

**Order Intake of the
Andritz Group (MEUR)
2003-2007**



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

Based on the resolution of the Annual General Meeting of March 29, 2007, the company's capital stock was increased by EUR 9,490,000, from EUR 94,510,000 to EUR 104,000,000 by converting the corresponding partial amount of the company's capital reserves shown in the Financial Statements as of December 31, 2006, in accordance with the Capital Adjustment Act, with no issue of additional no-par value bearer shares. As a result, the share capital of Andritz amounted to EUR 104,000,000 as of 31.12.2007. The Annual General Meeting also approved the resolution to split the Andritz shares in a ratio of 1:4, whereby their number was increased from 13,000,000 to 52,000,000 shares. As a result, the proportionate amount of the capital is EUR 2.00 per no-par value share.

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 29, 2007, the Annual General Meeting of Shareholders authorized the Executive Board to buy back up to 10% of the total of shares of Andritz AG between April 1, 2007 and September 30, 2008. There are no powers of the Members of the Executive 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 Executive 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 that would become effective, 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 2006–2013 issued in June 2006, all holders of a bond forming part of the issue shall, in the event of a change of control by a new large shareholder taking place and this change of control leading to a substantial impairment of the issuer's ability to fulfill 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.

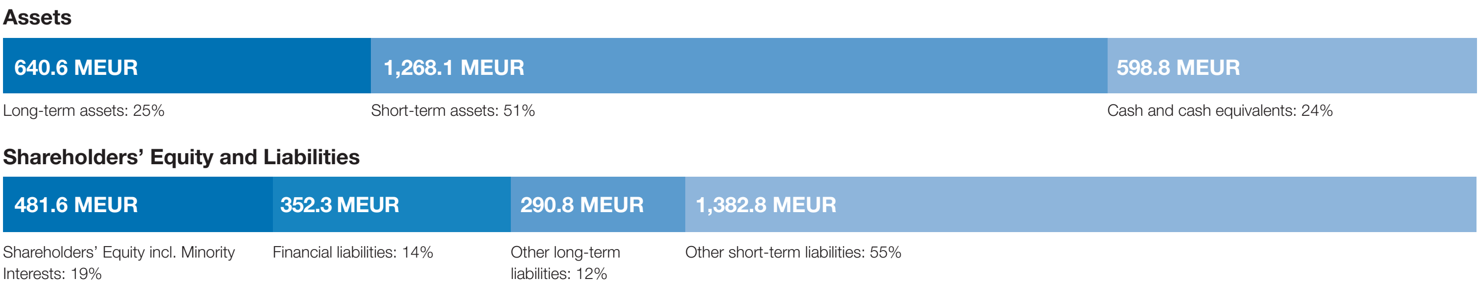
Compensation agreements exist between the company and some Members of its Executive Board in the event of change of control. There are no compensation agreements for the Supervisory Board and the employees.

KEY FINANCIAL FIGURES OF THE ANDRITZ GROUP

MEUR	2007	2006	Change in %
Sales	**3,282.5**	2,709.7	+ 21.1
Return on Sales[1] (%)	**5.9**	5.9	-
EBITDA	**242.3**	194.2	+ 24.8
Operating Result (EBIT)	**192.6**	159.8	+ 20.5
Earnings before Taxes (EBT)	**198.0**	165.9	+ 19.3
Net Income	**136.1**	121.4	+ 12.1

1) EBIT/Sales

Total assets 2007: 2,507.5 MEUR



KEY BALANCE SHEET RATIOS

	2007	2006
Equity ratio[2] (%)	**19.2**	17.4
Return on equity[3] (%)	**41.1**	40.0
Return on investment[4] (%)	**7.7**	6.7
Net liquidity[5] (MEUR)	**246.5**	365.7
Net debt[6] (MEUR)	**-94.8**	-216.9
Net working capital[7] (MEUR)	**99.1**	-93.6
Capital employed[8] (MEUR)	**405.6**	194.5
Gearing[9] (%)	**-19.7**	-52.3

2) Shareholders' Equity/Total assets
3) Earnings before Taxes/Shareholders' Equity
4) EBIT/Total assets
5) Cash and cash equivalents minus financial liabilities
6) Interest-bearing liabilities including provisions for severance payments, provisions for pensions, and jubilee provisions minus cash and cash equivalents
7) Non-current and current receivables and other assets minus non-current and current liabilities excl. financial liabilities and provisions
8) Net working capital plus fixed assets
9) Net debt/Shareholders' Equity

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, major orders, and the conversion of the Backlog into Sales. Andritz has a long-established Group-wide risk management system 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 monitoring and management of financial risks are integral parts of Andritz's Group-wide accounting and controlling activities. Continuous controlling and regular reporting should attempt to ensure that major risks are identified at an early stage and countermeasures 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 U.S. dollars and British pounds, is usually 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 sufficient or sufficiently effective, as the case may be.

Capex and cash flow

The Andritz Group's investments in tangible and intangible assets amounted to 57.0 MEUR in 2007, thus increasing by 24.7% compared to last year (2006: 45.7 MEUR). Capital expenditure mainly focused on building and workshop modernizations at some of the Group's existing sites as well as on capacity additions, especially in China.

Cash flow from operating activities amounted to 33.1 MEUR, down compared to last year (2006: 143.1 MEUR).

KEY CASH FLOW RATIOS

MEUR	2007	2006
Cash flow from operating activities	**33.1**	143.1
Capital expenditure[1]	**57.0**	45.7
Free cash flow[2]	**-19.6**	100.1
Free cash flow per share[3]	**-0.4**	1.9

1) Additions to property, plant, and equipment and intangible assets
2) Cash flow from operating activities minus capital expenditure plus payments received from the sale of tangible and intangible assets
3) Free cash flow/total number of Andritz shares

Effects from exchange rates

Changes in exchange rates are hedged by forward rate contracts.

Non-financial performance indicators

Manufacturing

The year under review 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, de-bottlenecking, and projects to further improve competitiveness and reduce lead times were successfully implemented. In the strongly growing markets of China, India, and South America, manufacturing capacity is being extended systematically.

Human Resources

Global training and further development of working skills of Andritz employees was once again a focus of Human Resources activities in 2007. Recruiting activities were extremely challenging due to the lack of well-trained applicants. Nevertheless, most relevant vacancies within the Andritz Group were well filled with highly qualified candidates. Transfers of employees to subsidiaries all over the world (mainly China) to support local business and organization development increased significantly. This is an important activity with regard to the internal growth of the Andritz Group.

Environmental protection

In 2007, environmental protection activities focused on training programs for employees as well as measures to save energy and to reduce traffic load, entailing CO_2, CO, and NO_x emission savings. A new traffic concept was developed for the Graz, Austria, location and the prerequisites for its implementation were established. This concept will be implemented in 2008 and will result in saving 4,000 kilometers on the company's premises and 13,000 kilometers in the district of Graz-Andritz per year. A pilot project to reduce the energy required for office lighting at the Graz site has revealed a savings potential of 20% in this area, which is planned to be realized in 2008 and 2009. A project involving the Andritz sites in Graz and Weiz, Austria was carried out where apprentices from the workshop in Graz repaired the hydro turbine in the company's power station in Weiz enabling them to deepen their knowledge in the field of renewable energy. In 2007, the Graz site was once more awarded the Ökoprofit certificate by the city of Graz for special performance with regard to environmental protection.

RESEARCH AND DEVELOPMENT

In 2007, the Andritz Group invested approximately 45.4 MEUR in Research and Development (2006: 35.4 MEUR). Including the expenditure for contract-related developments, the total R&D expenditure for new processes and products amounted to approximately 3% of Sales. 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.

For the Divisions of the **Pulp and Paper Business Area,** two major trends are driving customer investments today. First is the goal to reduce the investment cost per ton to its lowest possible level. This is leading to larger, single-line production units with no redundancy of systems. The second trend is to continue to make the production process more sustainable. Andritz's response to the sustainability requirement is evident in the new systems which have been adapted to the efficient processing of plantation fibers and technology which consumes much less energy than its predecessors. Considerable R&D effort is being employed to more effectively utilize biomass as an energy source.

In May 2007, Andritz, with its associated company Carbona, and UPM, one of the world's leading forest product companies, agreed to cooperate on the development of a technology for biomass gasification and synthesis gas purification. The joint pilot project will demonstrate gasification of the planned feedstock (wood residue) in an 8 MW gasifier and product gas cleaning to the point where it is suitable for treatment and conversion into biofuels with commercially available equipment. As part of the project, an extensive pilot plant testing program will be performed at the Gas Technology Institute (GTI), a renowned research and development organization in the USA. Final results are expected by the end of 2008.

The trend in wood processing is towards high-capacity lines. In order to serve this demand, the Division has developed bigger lines for both barked and debarked logs. A new chipper (the largest in the world) and a new high-capacity debarking drum have been developed. The Division also developed a new technology for separating sand and loose bark which can process logs that have been debarked in the forest.

Technology development in the fiberline area not only targets large greenfield mills, but also small- and medium-sized lines. Digester feedline enhancements, the larger scale of DD washers, the next generation of MC-equipment, and advanced control systems have been introduced. Reduced fresh water consumption and correspondingly lower effluent volumes are achieved by new washing concepts and by pressurizing/closing process steps to prevent emissions to the atmosphere.

For white liquor production, a new lime kiln was designed with a capacity exceeding 1,000 t/d. The application of centrifuge technology for dregs dewatering and washing is gaining acceptance. The centrifuge minimizes the impact of dregs in landfills. A system for the selective reduction of phosphorus in the lime circulation will be installed in a mill in Finland, which will enable further closing of the lime cycle and reduction of solid waste.

In the area of energy production from biomass, a development program was launched in 2006 to introduce advanced biomass-fired power boilers to the industry and the first power boilers are already under construction. High oil and gas prices have triggered growing interest in using biofuels in lime kilns, which are still significant consumers of fossil fuels in the pulp mill.

As experience with the operation of the High Energy Recovery Boiler (HERB) is accumulated, plans for the next steps to increase the electricity generation from black liquor are in place. As mills continue to close their chemical circulation loops to reduce emissions, chloride removal is becoming more important. The first leaching-based chloride removal process by Andritz is being constructed and this offers a lower cost alternative to the proven ash re-crystallization process. Significant development efforts have been made to reduce the operating costs of the evaporation plant. A new patented approach has been developed to address recent developments in thermal and electrical energy prices.

The research and development focus for pulp drying lines is to increase the production capacity of a single drying line based upon Twin Wire forming technology from approximately 4,000 t/d today to over 4,500 t/d or over 1,300,000 t/y of pulp. Energy consumption of the entire drying line will be reduced by simplifying the process and optimizing the 'biggest energy consumers' in the line.

In the paper machine area, developments in the tissue group include the introduction of the PrimeDry Steel, a Yankee dryer with higher performance and higher operational safety compared to a conventional cast iron Yankee. In the air engineering department, the focus was on energy-saving equipment. A new step in heat recovery from the exhaust of Yankee hoods – ReEvaporation – has been developed. Condensate is re-evaporated in a heat exchanger by using exhaust air. Up to 25% savings in primary steam is possible. A new web guiding device after the creping doctor – the PrimeTakeOff – has been introduced. The benefits are fewer paper breaks at higher machine speeds. The development of a modular Yankee hood allows the delivery of the huge hood body in smaller parts, with final assembly on-site.

Increasing system efficiency and reducing energy consumption are the focal points of development in the fiber preparation area. An ash washing machine (SpeedWasher) for Mixed Office Waste (MOW) papers and a pressurized disperser for Old Corrugated Container (OCC) grades have been introduced.

For mechanical pulping, a high-priority program is concentrating on simplifying processes and improving reliability of equipment to lower the investment/operating costs for customers. Two results of this effort in the last year have been the introduction of a new fiber centrifuge, which separates steam and fibers more effectively after the high-consistency refiner, and a new series of compression devices and screws. To meet future requirements, the Division invested in the modernization of its pilot plant in Springfield, Ohio, USA.

In the paper finishing area, the smallest shoe roll ever built (diameter: 710 mm) has been designed for the tissue industry. Patented features like additional lubrication and the edge relief system make it possible to achieve higher dryness without loss of bulk and with the fewest possible belt changes. A new design for the PrimeFeeder makes the entire process significantly more stable and helps reduce the time it takes a paper machine to reach full production after a sheet break.

In the **Hydro Power Business Area** both order-related developments and basic innovations were carried out successfully. In the Tokke, Norway and Larona, Indonesia contract (two Francis rehabilitation projects), the excellent performance of the new runner designs was the basis for receiving the contract awards for further runner deliveries. Hydraulic engineering studies were also initiated in other areas in order to provide customers with advanced and detailed information in a very early project stage.

For bulb units in the head range above 20 m, a new generation of 5-bladed runners has been developed and successfully tested on a model for a contract in China.

The development of large pumps for India and China, as well as the basic developments for new pump turbines, benefited from the synergies between the two product lines.

R&D activities in the field of hydrogenerator cooling focused on the optimization of several components of the ventilation circuits and on the enhancement of numerical tools for the ventilation design.

Based on practical experience with the newly developed StrafloMatrix™ Generator, which has been running in an Austrian hydropower plant for over two years, the special design of the high voltage stator winding, as well as the heat transfer from the end winding, were optimized.

In the course of cost reduction programs and the generator value-analysis project, a number of new technical concepts were analyzed. A concept for global impregnation of large-diameter stator cores, a new plate-rotor design, and an alternative damper winding fixture are among the most promising concepts. →

One focus of R&D activities was on technologies for hydropower plant automation. SAT250, the cutting-edge control center and operator station system, has been optimized in the low-cost range, functionally and ergonomically. The system now covers all man-machine interfaces in a hydropower plant, from small turbine governor panels to sophisticated multi-site control centers for power plant groups. In electrical protection and excitation, a very new platform, the first technologically unified protection/excitation platform in the world, has been defined.

The **Rolling Mills and Strip Processing Lines Business Area's** R&D activities focused mainly on new coating technologies using electro-galvanizing and CVD (Chemical Vapor Deposition) technology. Pilot plants for both processes produced material that is used for application tests at potential customers.

In HCl recovery systems, the iron oxide by-product is important for the economy of the process. New process routes were investigated in order to produce iron oxide for the pigment market.

The delivery program of new-generation punching and metal-forming presses was extended. The new generation of presses features a modular design, which allows flexible adaptation to customer demands.

In the **Environment and Process Business Area,** research work by the Separation Technologies Division continued to concentrate on the optimization of the centrifuge product range in order to further enhance performance and/or reduce manufacturing costs. Another focus area was standardization of the filter press product family in order to shorten delivery times and reduce costs.

Driven by increasingly stringent requirements for highly efficient odor control systems, further efforts and tests have been conducted to minimize odor and TOC (Total Organic Carbon) compounds in the offgas from sludge drying plants. Especially for sewage sludge, with its unpredictable range of odorous substances, extensive R&D work is done to develop a reliable and ecological odor control system that – unlike thermal oxidizers – does not consume further primary energy and cause additional pollution by CO_2.

Based on the strong market demand for biomass drying, the development of a large-scale belt dryer for biomass with an evaporation capacity of up to 16 t/h has been started with the target to achieve utmost energy efficiency by heat recovery from drying gases. This dryer will operate with nearly closed drying air loops and also recover the energy from the minimized dryer offgas stream. It will be able to run on waste heat or offgas from other processes as well as from combined heat and power plants (CHPs).

Also with respect to biomass drying, intensive pilot tests were carried out with a pilot-scale drying plant to obtain design and feasibility data for belt drying on various biomass materials such as sawdust for pellet mills, spent grain from breweries, rejects, sugar cane bagasse, and bark from the pulp and paper industry.

The **Feed and Biofuel Business Area** successfully launched a new-generation process control based on touch screen technology, for its small and medium-sized pet food and aquatic feed extruders.

To further strengthen the product range targeting the renewable energy sector, a new-generation hammermill for wood powder production in power plants was introduced to the market.

OUTLOOK

In spite of the general global economic slowdown and the turmoil on the global financial markets, Andritz currently continues to see good project activity in all Business Areas.

For **Pulp and Paper,** project activity remains at a satisfactory level, with investments focusing on both greenfield plants and modernization/refurbishment of existing installations. The most active regions for new pulp mills and/or extension of existing mills are expected to be South America, Australia, and Asia. For Europe and North America, investments should focus on modernization/refurbishment of existing plants as well as on after-market services. In addition, it is expected that the global demand for processes and systems using renewable energy sources (biomass, such as forest residues, grass, straw, etc.), which also further enhance energy efficiency and minimize emissions, will increase.

In the area of **Hydro Power** Business, project activity is expected to continue at a high level in 2008. A large number of new hydropower stations are in the planning or construction stages, in particular in South America, China, and India. For Europe and North America, investments should continue to focus on modernization and rehabilitation due to the aging installed capacities, as well as on capacity increasing projects for existing plants. The demand for pumped storage systems should also remain at a high level due to the necessity of securing network stability. The market for small-scale hydropower stations should also develop positively, mainly pushed by increasing worldwide efforts for climate protection and the increased use of renewable energy sources.

In the area of **Rolling Mills and Strip Processing Lines,** investment activity for both carbon steel and stainless steel equipment continues at a solid level. In the area of stainless steel, a continued high demand from fast growing economies, like China and India, is anticipated. For Europe and the USA, project activity is expected to be focused on the modernization of existing plants, with one or more new projects being decided.

For **Environment and Process,** the market for sludge dewatering equipment should remain at a solid level. In addition, dewatering equipment for industrial applications for the petrochemical, minerals, mining, and food processing industries should continue to develop favorably. In the area of thermal drying, a gradual enhancement of project activity is anticipated, mainly driven by rising fuel prices, leading to increasing demand for drying plants with combined heat and power solutions, and plants with combined incineration.

In the area of **Feed and Biofuel,** the animal feed sector should develop solidly, with Eastern Europe and Russia, as well as Central and South America, being the most active regions. It is also expected that project activity in the aquaculture and the pet food industries should develop positively.

Investment activity for wood pelleting equipment should also remain at a very high level, in particular in North America, Northern and Western Europe, and in the 'new' regions of Southern Europe and South America.

Based on the high Order Backlog of over 3.8 billion Euros as of the end of 2007, and the expected good project activity in all of the Business Areas, Andritz expects Group Sales for 2008 to amount to approximately 3.5 billion Euros, with Earnings increasing at least at the same rate as Sales.

Significant events after December 31, 2007

Between the balance sheet date and the publication of this report, the turmoil on the international financial markets has persisted. The released economic indicators showed further signs of a global economic slowdown. A significant downturn of the global economy during 2008 might have a negative effect on the financial development of the Andritz Group.

On February 18, 2008 Andritz successfully concluded the issue of a public corporate bond with a volume of MEUR 150 and a tenor of seven years. At a denomination of TEUR 50 the Andritz corporate bond is endowed with an annual fixed coupon rate of 5.25%.

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.

STATEMENT BY THE EXECUTIVE BOARD

Pursuant to Article 82 (4) of the (Austrian) Stock Exchange Act, the Executive Board of Andritz AG herewith confirms

1. that, to its knowledge, the Consolidated Financial Statements 2007 drawn up in compliance with applicable financial reporting standards present, as fairly as possible, the financial position and financial performance of the entirety of the companies included in the consolidated figures of the Andritz Group;

2. that the Status Report presents the business development, the Earnings and the position of the entirety of the companies included in the consolidated figures of the Andritz Group in such a manner as to present as fairly as possible the financial position and financial performance and to describe the essential risks and uncertainties to which the Andritz Group is exposed.

The Executive Board of Andritz AG
Wolfgang Leitner (President and CEO), Franz Hofmann,
Karl Hornhofer, Humbert Köfler, Friedrich Papst

Graz, February 2008

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board was regularly informed by the Executive Board, both verbally and in writing, of the status of the Company, its development, and major business transactions. The transactions that were subject to approval by the Supervisory Board were investigated and reviewed together with the Executive Board.

On March 29, 2007, Klaus Ritter was re-elected as Member of the Supervisory Board for the maximum duration according to the stipulations in the Articles of Association, i.e. until the end of the General Meeting of Shareholders which decides on the discharge for the business year 2011.

The Financial Statements of Andritz AG and the Consolidated Financial Statements as of December 31, 2007, as well as the Status Reports for 2007, were audited (including the accounts) and certified by AUDITOR TREUHAND GMBH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, who had been appointed as auditors by the General Meeting of Shareholders.

The Supervisory Board examined the Financial Statements certified by the Auditors, as well as the proposed appropriation of profit and the Status Reports of the Executive Board, and concurs with the result of the Audit. The Supervisory Board approved the Financial Statement of Andritz AG, which is herewith adopted in compliance with Article 125, paragraph 2 of the Corporation Act.

Kurt Stiassny
Chairman of the Supervisory Board

Graz, February 2008

CONSOLIDATED FINANCIAL STATEMENTS 2007 OF THE ANDRITZ GROUP (IFRS)

AUDITOR'S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the following consolidated financial statements of Andritz AG, Graz, Austria for the financial year from January 1, to December 31, 2007. These consolidated financial statements comprise the balance sheet as at December 31, 2007, the consolidated income statement, cash flow statement, and statement of changes in equity for the year ended December 31, 2007, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the Legal Representatives for the Consolidated Financial Statements

The company's legal representatives are responsible for the preparation of the consolidated financial statements, which, in accordance with International Financial Reporting Standards as applicable in the EU, are to provide a fair presentation of the Group's financial position and financial performance. This responsibility includes: Set-up, implementation, and maintenance of an internal controlling system if this is relevant for the preparation of consolidated financial statements and fair presentation of the Group's financial position and performance so that these statements are free from material misstatement, whether due to fraud or error; selection and application of appropriate accounting policies; and making accounting estimates that are reasonable in consideration of existing 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 the laws and regulations applicable in Austria and in accordance with the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). The standards require us to comply with the professional rules of conduct and to plan and perform the audit in a manner to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence of the amounts and disclosures in the consolidated financial statements. The selection of the procedures depends on the auditor's judgment, including the assessment of the risk of material misstatements in the financial statements, whether due to fraud or error. In making the risk assessments, the auditor considers the internal control system as far as relevant for the Group's preparation of the consolidated financial statements and the fair presentation of the financial position and performance, in order to set up appropriate audit procedures in consideration of the existing circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control system. An audit also includes evaluating the appropriateness of the 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 sufficiently secure basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. Based on the results of our audit, the consolidated financial statements, in our opinion, present fairly, in all material respects, the financial position of the Group as of December 31, 2007, and of its financial performance and its cash flows for the financial year from January 1, to December 31, 2007 in accordance with the International Financial Reporting Standards (IFRSs) as applicable in the EU.

REPORT ON THE CONSOLIDATED STATUS REPORT

On account of laws and regulations applicable in Austria the consolidated status report is to be checked for consistency with the consolidated financial statements and whether the other disclosures made in the consolidated status report do not give rise to misconception of the position of the Group.

In our opinion, the consolidated status report is consistent with the consolidated financial statements.

Vienna, February 19, 2008

AUDITOR TREUHAND GMBH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Walter MÜLLER   Michael SCHOBER
(Austrian) Certified Public Accountants

AUDITOR TREUHAND GMBH is a member of

Deloitte.

If 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, 2007

	Notes	2007 (in TEUR)	2006* (in TEUR)
ASSETS			
Intangible assets	1.	46,373	50,990
Goodwill	1.	227,083	222,617
Property, plant, and equipment	1.	260,153	237,089
Shares in associated companies	1.	6,825	6,222
Other investments		32,997	32,738
Non-current receivables and other non-current assets	2./5./7.	10,221	6,132
Deferred tax assets	18.	56,982	58,969
Non-current assets		**640,634**	**614,757**
Inventories	3.	250,632	213,728
Advance payments made	4.	85,669	35,710
Trade accounts receivable	5.	400,163	347,368
Cost and earnings of projects under construction in excess of billings	6.	391,305	346,777
Other current receivables	7.	128,716	106,949
Prepayments and deferred charges		11,595	10,594
Marketable securities		101,887	39,592
Cash and cash equivalents		496,926	670,591
Current assets		**1,866,893**	**1,771,309**
TOTAL ASSETS		**2,507,527**	**2,386,066**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital		104,000	94,510
Capital reserves		36,476	45,966
Retained earnings	8.	326,933	262,352
Equity attributable to shareholders of the parent		**467,409**	**402,828**
Minority interests		**14,166**	**11,712**
Total shareholders' equity		**481,575**	**414,540**
Bonds – non-current	11.	192,268	296,358
Bank loans and other financial liabilities – non-current	11.	28,804	21,826
Provisions – non-current	9./10.	184,214	182,002
Obligations under finance leases – non-current	11.	551	778
Other liabilities – non-current	12.	6,976	8,144
Liabilities for deferred taxes	18.	99,604	80,093
Non-current liabilities		**512,417**	**589,201**
Bonds – current	11.	99,995	0
Bank loans and other financial liabilities – current	11.	29,931	24,900
Obligations under finance leases – current	11.	799	599
Trade accounts payable		314,028	340,682
Billings in excess of cost and earnings of projects under construction	6.	388,034	391,934
Advance payments received		82,255	70,730
Provisions – current	9.	210,592	204,106
Liabilities for current taxes		20,182	22,605
Other liabilities – current	12.	367,719	326,769
Current liabilities		**1,513,535**	**1,382,325**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**2,507,527**	**2,386,066**

*** restated**

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, 2007

	Notes	2007 (in TEUR)	2006* (in TEUR)
Sales	**13.**	**3,282,488**	**2,709,686**
Changes in inventories of finished goods and work in progress		(440)	(46,933)
Capitalized cost of self-constructed assets		2,035	1,972
		3,284,083	**2,664,725**
Other operating income	**14.**	66,657	41,231
Cost of materials		(1,985,962)	(1,644,917)
Personnel expenses	**15.**	(676,603)	(516,933)
Other operating expenses	**16.**	(445,859)	(349,883)
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**242,316**	**194,223**
Depreciation, amortization and impairment of intangible assets and property, plant, and equipment	**1.**	(46,984)	(34,384)
Impairment of goodwill	**1.**	(2,771)	0
Earnings before interest and taxes (EBIT)		**192,561**	**159,839**
Income/Expenses from associated companies		887	1,244
Interest result		4,370	5,290
Other income from financing activities		204	(448)
Financial results	**17.**	**5,461**	**6,086**
Earnings before taxes (EBT)		**198,022**	**165,925**
Income taxes	**18.**	(61,915)	(44,572)
NET INCOME		**136,107**	**121,353**
Thereof attributable to:			
Shareholders of the parent company		132,738	118,488
Minority interests		3,369	2,865
Weighted average number of no-par value shares		51,561,489	51,270,364
Earnings per no-par value share (in EUR)	**19.**	2.57	2.31
Effect of potential dilution of share options		269,688	332,496
Weighted average number of no-par value shares and share options		51,831,177	51,602,860
Diluted Earnings per no-par value share (in EUR)		2.56	2.30
Proposed or paid dividend per no-par value share (in EUR)	**8.**	1.00	0.75

*** restated**

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, 2007

	Notes	2007 (in TEUR)	2006* (in TEUR)
Earnings before taxes (EBT)		**198,022**	**165,925**
Interest result		(4,370)	(5,290)
Depreciation, amortization, write-ups and impairment of fixed assets		49,643	34,475
Income/Expense from associated companies		(887)	(1,244)
Changes in non-current provisions		3,481	12,563
Results from the sale of fixed and financial assets		(1,545)	194
Other non-cash income/expenses		3,227	5,470
Taxes paid		(56,085)	(42,131)
Interest received		31,602	23,023
Interest paid		(24,142)	(18,592)
Gross cash flow		**198,946**	**174,393**
Changes in inventories		(33,286)	44,269
Changes in advance payments made		(50,061)	(57)
Changes in receivables, prepayments and deferred charges		(129,397)	(160,868)
Changes in current provisions		8,942	36,136
Changes in advance payments received		7,669	(75,964)
Changes in liabilities and deferred income		30,296	125,224
Cash flow from operating activities		**33,109**	**143,133**
Payments received for asset disposals		14,324	2,729
Payments made for investments in fixed tangible and intangible assets		(57,033)	(47,475)
Payments made for investments in financial assets		(8,143)	(5,143)
Cash flow due to purchase of minority interests and business acquisitions	I.	(36,535)	(57,837)
Payments made for short-term financial investments		(60,758)	35,440
Cash flow from investing activities		**(148,145)**	**(72,286)**
Changes in interest-bearing borrowings		5,955	213,981
Dividends paid by Andritz AG		(38,690)	(25,550)
Other changes of investments by minority shareholders		(519)	299
Payments concerning own shares		(20,180)	1,354
Cash flow from financing activities		**(53,434)**	**190,084**
Change in cash and cash equivalents		**(168,470)**	**260,931**
Changes in cash and cash equivalents resulting from exchange rate fluctuations		(5,195)	(9,125)
Cash and cash equivalents at the beginning of the period		**670,591**	**418,785**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**496,926**	**670,591**

*** restated**

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, 2007*

		Attributable to shareholders of the parent						Minority interests	Total shareholders' equity
(in TEUR)	Notes	Share capital	Capital reserves	Other retained earnings	IAS 39 reserve	Currency translation adjustments	Total		
Status as at 1.1.2006		**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
Gains/(losses) recognized directly in equity, net of taxes on income		**0**	**0**	**0**	**3,845**	**(13,730)**	**(9,885)**	**(49)**	**(9,934)**
Net income				118,488			118,488	2,865	121,353
Total gains/(losses) for the year		**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)
Capital increase from the company's own reserves							0		0
Changes concerning own shares				1,354			1,354		1,354
Other changes				2,148			2,148		2,148
Status as at 31.12.2006*		**94,510**	**45,966**	**283,725**	**673**	**(22,046)**	**402,828**	**11,712**	**414,540**
Status as at 1.1.2007		**94,510**	**45,966**	**283,725**	**673**	**(22,046)**	**402,828**	**11,712**	**414,540**
Currency translation adjustments	8.					(12,378)	(12,378)	163	(12,215)
Changes to IAS 39 reserve					(29)		(29)		(29)
Gains/(losses) recognized directly in equity, net of taxes on income		**0**	**0**	**0**	**(29)**	**(12,378)**	**(12,407)**	**163**	**(12,244)**
Net income				132,738			132,738	3,369	136,107
Total gains/(losses) for the year		**0**	**0**	**132,738**	**(29)**	**(12,378)**	**120,331**	**3,532**	**123,863**
Dividends	8.			(38,690)			(38,690)	(1,078)	(39,768)
Changes from acquisitions							0		0
Capital increase from the company's own reserves		9,490	(9,490)				0		0
Changes concerning own shares				(20,180)			(20,180)		(20,180)
Other changes				3,120			3,120		3,120
STATUS AS AT 31.12.2007		**104,000**	**36,476**	**360,713**	**644**	**(34,424)**	**467,409**	**14,166**	**481,575**

*** 2006 restated**

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, 2007

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 through 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 10,949 in 2007 and 8,164 in 2006. The registered office address of the Group is at Stattegger Strasse 18, 8045 Graz, Austria.

The consolidated financial statements are the responsibility of the Executive Board and are 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 were prepared in accordance with Standards formulated by the International Accounting Standards Board (IASB) endorsed by the European Union and whose application is mandatory for 2007. All interpretations formulated by the International Financial Reporting Interpretations Committee (IFRIC), whose application is also mandatory for 2007, have been taken into account. In the year under review 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 2007.

In the current year, the Group has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements.

The adoption of IFRS 7 and the changes to IAS 1 have led to an increase of the disclosures provided in these consolidated financial statements regarding the Group's financial instruments and management of capital.

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:

- IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies;
- IFRIC 8 Scope of IFRS 2;
- IFRIC 9 Reassessment of Embedded Derivatives; and
- IFRIC 10 Interim Financial Reporting and Impairment.

The adoption of these Interpretations had no impact on the enclosed consolidated financial statements.

At the date of authorization of these consolidated financial statements, the following Standards and Interpretations were issued but not yet effective:

- IAS 23 (Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 3 (Revised) Business Combinations and consecutive amendments in other Standards (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 11 IFRS 2 Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007);
- IFRIC 12 Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008);
- IFRIC 13 Customer Loyalty Programs (effective for accounting periods beginning on or after 1 July 2008); and
- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008).

The effects of the revised IAS 23 are currently analyzed by the Executive Board. The Executive Board believes at present, that no significant effects will impact the enclosed consolidated financial statements. The principal change to the Standard is to eliminate the previously available option to expense all borrowing costs when incurred.

IFRS 8 is a disclosure Standard which may result in a redesignation of the Group's reportable segments, but has no impact on the reported results or financial position of the Group.

The Executive Board intends first-time application of the Standards and Interpretations mentioned above for that period in which they come into force. The application of the Standards and Interpretations will have no essential impact on the equity and reported results of the consolidated financial statements in the year they are adopted for the first time.

The changes in IFRS 3 (including consecutive amendments in other Standards) could have an effect on future transactions which can not be estimated comprehensively at this time. →

b. Reporting Currency

The consolidated 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 basically exists where 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 statements, respectively. The purchase method of accounting is used for acquired businesses. Companies acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date of acquisition or 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 mergers 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 for using the percentage of completion method in accordance with progress and pro rata profit realization. To complete each contract ('cost-to-contract method'), the extent of completion is established by considering the ratio of accumulated costs to estimated total costs.

Deferred taxes: If a tax liability is expected to arise when these differences are reversed, the Austrian Commercial Code requires the creation of deferred tax assets and liabilities for temporary differences. IFRS require the creation of deferred taxes for all temporary differences that 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 that 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 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 if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

C. ACQUISITIONS

At the beginning of June 2007, Andritz acquired 50% of the Brazilian company Sindus Human Technology for approximately MEUR 5.9. Sindus specializes in servicing pulp and paper plants, thus complementing the existing service offering of the Pulp and Paper Business Area. Sindus is accounted for as a joint venture in the consolidated financial statements.

In December 2007, Andritz acquired 100% of the Hungarian manufacturing company Tigép ft.; Tigép will be used as manufacturing location for heavy machinery, especially for Hydro Power. Production bottlenecks can be eliminated or avoided by this increase of capacity.

Since their dates of the acquisition, the acquired companies contributed TEUR 5,875 to the Andritz Group‘s Sales and TEUR 387 to the Andritz Group‘s EBIT. If the businesses had been acquired at the beginning of 2007, the Group’s Sales would have been 3,301,526 TEUR and the Group’s EBIT would have amounted to 192,911 TEUR.

The aggregate purchase price of the business combinations effected in 2007 amounted to TEUR 27,887, direct costs of acquisition amounted to TEUR 192.

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

(in TEUR)	2007
Current assets	16,966
Intangible assets	2,566
Goodwill	7,229
Property, plant and equipment	14,020
Current liabilities	(10,224)
Non-current liabilities	(999)
Liabilities for deferred taxes	(1,671)
Net assets acquired	**27,887**

The goodwill recognized in cause of a business combination comprises acquired intangibles, which could not be recognized separately, such as experienced and trained workforce and the acquired market positions.

The initial accounting for the companies acquired in 2007 is based on preliminary figures. 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 according to IFRS.

The initial accounting for the companies acquired in 2006 was based on preliminary figures. The changes made for the acquisitions within the 12 months after the acquisition date according to IFRS 3 result in the following changes in assets and liabilities as of December 31, 2006:

(in TEUR)	
Goodwill	15,225
Other current receivables	(1,750)
Other current liabilities	13,475

Due to these changes the respective notes have been restated accordingly.

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 useful life. The expected useful lives vary from 3 to 15 years.

Business combinations and goodwill

For business combinations and goodwill, 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 at least 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 an impairment loss is recognized. An impairment loss recognized for goodwill will not be reversed in a subsequent period. Future payment surpluses are based on internal forecasts, which are prepared in detail for the next business year and with simplifications for the following two years, and reflect the historical performance and management’s best estimates about future developments. After this detailed planning horizon a constant level is assumed, if no grave reasons speak against it.

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 10.36% and 11.01% was applied.

Substantial goodwill was allocated at the acquisition date to existing cash-generating units of Andritz AG (1999), of the Pulp Business acquired through the Andritz-Ahlstrom Group (2000/2001) as well as of 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.

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, non-current securities and loans.

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.

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 during which they occur. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost.

Financial assets classified as loans and receivables are measured at amortized costs using the effective interest method less any impairment losses.

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. The net realizable value is the selling price in the ordinary course of business minus 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 to recorded Sales. In the cost-to-cost method, Sales and profits are recorded after considering the ratio of accumulated costs to the estimated total costs to complete each contract. Changes to total estimated contract costs and losses, if any, are recognized in the income statement of the period in which they are determined. For remaining technological and financial risks which might occur during the remaining construction period, an individually assessed amount is included in the estimated contract costs. Impending losses out of the valuation of construction contracts are recognized at the time of occurrence. Impending losses are recognized when it is probable that the total contract costs will exceed the contract revenues. For possible customer warranty claims, provisions are accounted for according to the profit realization. At the completion of a contract, the remaining warranty risk is reassessed.

f. Trade Accounts Receivable

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

g. Marketable Securities

Marketable securities consist of government 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.

On the basis of the Resolution of the General Meeting of Shareholders on 29 March 2007, a capital increase of TEUR 9,490 was accomplished from the company's own reserves and the Andritz shares were split in a ratio of 1:4 as of 3 May 2007; as a result, the total number of Andritz shares was increased from 13,000,000 to 52,000,000. All disclosures were adjusted according to the share split of 1:4 accomplished in 2007.

The share capital of Andritz AG amounts to TEUR 104,000 divided into 52,000,000 shares of no-par value.

Based on authorizations of the shareholders' meetings and with approval from the Supervisory Board, the Executive Board has decided on programs for acquisition of own shares (up to 5,200,000) between 1 October 2005 and 31 March 2007 as well as between 1 April 2007 and 30 September 2008. The price range is a lowest price of EUR 2.50 and EUR 5.00, respectively, and a highest price which must not exceed the average unweighted closing price over the ten preceding trading days by more than 30%. In 2006, 177,444 own shares were acquired at an average price of EUR 30.21 per share. 618,000 own shares were resold at EUR 9.38 per share to eligible executives under the Management Share Option Plan and 8,416 own shares were transferred to employees of Andritz AG in the course of an employee participation program. In addition, 16,000 own shares were sold at the Vienna Stock Exchange for an average price of EUR 40.60 per share. In 2007, 521,094 own shares were acquired at an average price of EUR 40.48 per share and 62,500 own shares were resold at a price of EUR 9.38 per share to eligible executives under the Management Share Option Plan. 6,928 own shares were transferred to employees of Andritz AG in the course of an employee participation program. At 31 December 2007, the Company held 887,502 own shares at a market value of TEUR 36,787. 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. Financial Instruments under IAS 39 and IFRS 7
Financial assets

A financial instrument is a contract between two entities which creates a financial asset at one entity and a financial liability or equity instrument at another entity. If the Group qualifies as a party to the contract concerning the contract regulations, a financial asset or financial liability is recognized in the consolidated balance sheet in accordance with the substance of the contractual arrangement. Financial instruments include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, non-current receivables, borrowings, issued bonds and other investments.

Financial instruments are recognized and derecognized on a trade. This is the day of purchase or sale of an investment on which the contract terms require delivery of the investment within the timeframe established by the market concerned, and financial instruments are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value without transaction costs. 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.

Financial assets can be classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'loans and receivables' and 'available-for-sale' (AFS) financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Andritz Group classifies its financial assets either under FVTPL, loans and receivables or AFS.

Financial assets at FVTPL

The Andritz Group classifies its financial assets at FVTPL if the financial asset is held for trading, which applies only to derivatives. The Group uses derivative financial instruments to manage its foreign exchange rate risk, exposure to changes in fair value and commodity price risk, including foreign exchange forward contracts, interest rate swaps and commodity forwards. Financial assets at FVTPL are stated at fair value, with any resulting gain or loss recognized in profit or loss.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. Depending on the fair value of the derivative, it is either recognized under 'other receivables' or 'other liabilities', respectively bank loans and other financial liabilities.

AFS financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. Equity securities (e.g. shares), debt securities (e.g. bonds) and other investments (e.g. fund shares) held by the Andritz Group are designated as AFS financial assets.

AFS are stated at fair value. Resulting gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve (IAS 39 reserve) with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly through profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period. Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive payments is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

Loans and receivables

The Andritz Group classifies trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market as 'loans and receivables'. Loans and receivables are measured at amortized costs less any impairment.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized costs, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized through profit or loss.

The previously recognized impairment loss is reversed through profit or loss up to the extent of the initial impairment, if in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. An exception are AFS equity instruments, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Financial liabilities and equity instruments issued by the Group: Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities can be classified either as financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

The Andritz Group classifies financial liabilities at FVTPL if the financial liability is held for trading, which applies only to derivatives. The Group enters into a variety of derivative financial instruments to manage its exposure to changes in fair value, foreign exchange rate risk and commodity price risk, including foreign exchange forward contracts, interest rate swaps and commodity forwards. Financial liabilities at FVTPL are stated at fair value, with any resulting gain or loss recognized in profit or loss.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Subsequently they are measured at amortized costs using the effective interest method, with interest expense recognized on an effective yield basis.

Fair value of financial instruments

The fair value of financial assets (liabilities) is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. In this context, a quoted market price is the best evidence for the fair value, if financial assets (liabilities) are traded on active markets. In case an active market does not exist, generally accepted valuation techniques are used to determine what the price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, and if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If no quoted market price (e.g. equity instruments) and no reliable valuation techniques are available, the financial instrument is measured at cost. →

Effective interest method and amortized costs

The effective interest method is a method of calculating the amortized costs of a financial asset (liability) and of allocating interest income (expenses) over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset (liability), or, where appropriate, a shorter period. Interest is recognized on a time proportion basis that reflects the effective interest rate of the asset (liability). Dividends are recognized when the shareholders' right to receive payment is established.

Hedge accounting

The Group designated the bonds issued and the corresponding interest rate swaps into a hedging relationship accounted for as a fair value hedge.

At the inception of the hedge relationship, the Andritz Group documented the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the swaps are highly effective in offsetting changes in fair values or cash flows of the hedged item.

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

Fair value hedge

Applying the rules for hedge accounting has the impact that the gain or loss from remeasuring the hedging instrument at fair value is recognized through profit or loss. The gain or loss on the hedged item attributable to the changes of the hedged risk causes an adjustment of the carrying amount of the hedged item, which is also recognized through profit or loss. In this manner, the gains and losses resulting from the changes in fair value of the hedging instrument and the hedged item offset each other if the hedge is 100% effective.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

n. Other Accounting and Valuation Principles

Research and development costs

Expenditure for research and development is charged against income in the period incurred because the criteria for capitalization of development costs (IAS 38) are not met. In 2007, TEUR 45,400 and in 2006 TEUR 35,417 were recognized as expenses.

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 this is not possible, for the cash-generating unit.

Management share option plans

Due to the fact, that the management share option plans do not include cash-settlements, these corresponding expenses are disclosed directly within equity, according to the International Financial Reporting Standards.

o. Foreign Currency

Foreign currency transactions

Foreign currency transactions are recorded in the functional currency by applying to the foreign currency amount the exchange rate between the functional 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 functional currencies are their respective local currencies. Financial statements of foreign consolidated subsidiaries are translated at year-end rates to the presentation currency 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.

As from 2005, 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.

p. 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.

q. 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 the 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.

r. Use of Estimates

The preparation of financial statements requires the Executive Board 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.

The Executive Board has made judgements in the process of applying the Company's accounting policies. Additionally, at the balance sheet date, the Executive Board 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) 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 substantial changes after the balance sheet date are possible. These changes could lead to adjustments of assets and may influence earnings in subsequent periods.

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

c) 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 (Notes to the Consolidated Balance Sheet).

d) Employee incentive plans: The Stock Option Plans are measured based on the fair value of the options on the granting 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.

e) Deferred taxes: In assessing the recoverability of deferred tax assets, the Executive Board 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 the 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.

s. 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 Areas

For management purposes the Group is divided into five main Business Areas on a worldwide basis. 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 (segment information).

There are no material inter-area transactions. All consolidation entries are included in the relevant Business Area.

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 Areas.

F. NOTES TO THE CONSOLIDATED BALANCE SHEET

1. Changes in Intangible and Tangible Assets Acquisition or production costs

2007

(in TEUR)	Balance as at 1 January 2007	Currency translation differences	Additions	Changes due to business acquisitions	Disposals	Transfers	Balance as at 31 December 2007
Intangible assets	**74,022**	**(435)**	**3,949**	**2,566**	**661**	**66**	**79,507**
Goodwill	**225,955**	**(1,929)**	**1,937**	**7,229**	**0**	**0**	**233,192**
Land and buildings	191,664	(2,884)	8,839	5,898	4,357	3,106	202,266
Technical equipment and machinery	174,082	(4,139)	16,311	7,429	4,670	6,985	195,998
Other equipment, factory and office equipment	92,974	(1,578)	16,463	539	9,870	(901)	97,627
Assets in course of construction	8,075	(235)	7,437	71	218	(8,015)	7,115
Advance payments on tangible assets	1,431	(77)	4,034	262	96	(1,241)	4,313
Total property, plant and equipment	**468,226**	**(8,913)**	**53,084**	**14,199**	**19,211**	**(66)**	**507,319**
Total intangible and tangible assets	**768,203**	**(11,277)**	**58,970**	**23,994**	**19,872**	**0**	**820,018**

2006*

(in TEUR)	Balance as at 1 January 2006	Currency translation differences	Additions	Changes due to business acquisitions	Disposals	Transfers	Balance as at 31 December 2006
Intangible assets	**25,601**	**(503)**	**5,968**	**43,505**	**819**	**270**	**74,022**
Goodwill	**124,021**	**(4,371)**	**1,805**	**104,500**	**0**	**0**	**225,955**
Land and buildings	132,516	(2,800)	5,734	48,948	1,581	8,847	191,664
Technical equipment and machinery	150,455	(4,589)	10,877	25,340	5,454	(2,547)	174,082
Other equipment, factory and office equipment	74,200	(2,196)	13,806	11,624	5,909	1,449	92,974
Assets in course of construction	4,416	(200)	8,042	3,860	811	(7,232)	8,075
Advance payments on tangible assets	523	(17)	1,241	472	1	(787)	1,431
Total property, plant and equipment	**362,110**	**(9,802)**	**39,700**	**90,244**	**13,756**	**(270)**	**468,226**
Total intangible and tangible assets	**511,732**	**(14,676)**	**47,473**	**238,249**	**14,575**	**0**	**768,203**

*** restated**

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Depreciation and amortization

2007

(in TEUR)	Balance as at 1 January 2007	Currency translation differences	Depreciation and amortization for the year	Impairment	Disposals	Transfers	Balance as at 31 December 2007
Intangible assets	**23,032**	**(303)**	**10,982**	**0**	**643**	**66**	**33,134**
Goodwill	**3,338**	**0**	**0**	**2,771**	**0**	**0**	**6,109**
Land and buildings	63,071	(1,610)	6,053	437	421	72	67,602
Technical equipment and machinery	107,754	(2,852)	14,365	561	3,930	788	116,686
Other equipment, factory and office equipment	60,302	(1,688)	14,563	0	9,406	(926)	62,845
Assets in course of construction	10	0	23	0	0	0	33
Advance payments on tangible assets	0	0	0	0	0	0	0
Total property, plant and equipment	**231,137**	**(6,150)**	**35,003**	**999**	**13,757**	**(66)**	**247,166**
Total intangible and tangible assets	**257,507**	**(6,453)**	**45,985**	**3,770**	**14,400**	**0**	**286,409**

2006*

(in TEUR)	Balance as at 1 January 2006	Currency translation differences	Depreciation and amortization for the year	Impairment	Disposals	Transfers	Balance as at 31 December 2006
Intangible assets	**16,856**	**(287)**	**6,655**	**0**	**160**	**(32)**	**23,032**
Goodwill	**3,338**	**0**	**0**	**0**	**0**	**0**	**3,338**
Land and buildings	58,939	(1,434)	4,760	0	1,549	2,355	63,071
Technical equipment and machinery	110,233	(3,192)	11,442	0	4,820	(5,909)	107,754
Other equipment, factory and office equipment	52,390	(1,776)	11,527	0	5,425	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
Total property, plant and equipment	**221,572**	**(6,402)**	**27,729**	**0**	**11,794**	**32**	**231,137**
Total intangible and tangible assets	**241,766**	**(6,689)**	**34,384**	**0**	**11,954**	**0**	**257,507**

*** restated**

Net book value

2007

(in TEUR)	Costs as at 31 December 2007	Accumulated depreciation	Net book value as at 31 December 2007	Net book value as at 31 December 2006*
Intangible assets	**79,507**	**33,134**	**46,373**	**50,990**
Goodwill	**233,192**	**6,109**	**227,083**	**222,617**
Land and buildings	202,266	67,602	134,664	128,593
Technical equipment and machinery	195,998	116,686	79,312	66,328
Other equipment, factory and office equipment	97,627	62,845	34,782	32,672
Assets in course of construction	7,115	33	7,082	8,065
Advance payments on tangible assets	4,313	0	4,313	1,431
Total property, plant and equipment	**507,319**	**247,166**	**260,153**	**237,089**
Total intangible and tangible assets	**820,018**	**286,409**	**533,609**	**510,696**

*** restated**

Finance leases

The net book value for technical equipment and machinery includes an amount of TEUR 777 (2006: TEUR 1,006) and the net book value for other equipment, factory and office equipment includes an amount of TEUR 448 (2006: TEUR 333) in respect of assets held under finance lease. The total of minimum lease payments at balance sheet date amounts to TEUR 1,403 (2006: TEUR 1,293). The lease contracts have terms from 60 up to 84 months.

Goodwill

(in TEUR)	2007	2006*
VA TECH HYDRO	97,836	95,767
Andritz Ahlstrom	32,577	35,287
Acquisition of Andritz AG	59,596	59,596
Other	37,074	31,967
	227,083	**222,617**

*** restated**

Impairment

In 2007, the goodwill arising from the acquisition of Pilão met the characteristics for impairment because the business did not develop according to plan. The impairment loss for this goodwill amounted to TEUR 2,771 and is related to the Pulp and Paper Business. It was included in the income statement under impairment of goodwill. The value of the reporting unit was estimated using discounted cash flow forecasts using a weighted average cost of capital of 11.01%. In 2006, there was no need for impairment of goodwill.

Furthermore, in 2007 the Company recorded impairment charges in the amount of TEUR 999 for buildings and technical equipment in the Pulp and Paper, and Feed and Biofuel Business Areas.

Shares in associated companies

Accumulated assets of material associated companies included in the consolidated balance sheet as of December 31, 2007 amounted to TEUR 50,607, total liabilities to TEUR 39,871, Sales amounted to TEUR 89,971 and net income amounted to TEUR 1,497.

2. Other Non-current Receivables and Assets

Other non-current receivables and assets consist of trade accounts receivable and other non-current receivables.

3. Inventories

(in TEUR)	2007	2006
Finished goods	59,896	64,834
Work in progress	88,252	83,404
Raw materials	102,484	65,490
	250,632	**213,728**

The write-down of inventory for obsolete and slow-moving items included as expense in the income statement amounts to TEUR 2,585 (2006: TEUR 4,570).

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

Total trade receivables (net of allowances) at December 31, 2007 amounted to TEUR 405,231 (2006: TEUR 350,123), whereas the long-term portion is included in the balance sheet item non-current receivables and other non-current assets.

(in TEUR)	2007	2006
Trade accounts receivable – short-term	400,163	347,368
Trade accounts receivable – long-term	5,068	2,755
	405,231	**350,123**
Thereof neither past due nor impaired	268,334	244,484
Thereof past due but not impaired	115,452	88,783
Thereof impaired	36,115	29,420
Valuation allowance	(14,670)	(12,564)
	405,231	**350,123**

The average credit period on Sales of goods depending on the business area is 30 to 90 days. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed on an ongoing basis. About two thirds of the trade receivables are neither past due nor impaired.

Included in the Group's trade receivable balance are debtors with a carrying amount of TEUR 115,452 (2006: TEUR 88,783) which are past due at the reporting date for which the Group has not recognized any allowance as there has not been a significant change in credit quality and the amounts are still considered recoverable.

The roll-forward of the allowance for trade accounts receivable is as follows:

(in TEUR)	2007	2006
Allowance at beginning of the year	**(12,564)**	**(5,130)**
Foreign currency adjustment	(664)	(690)
Change in consolidation range	0	(3,010)
Charged to expenses	(4,469)	(5,679)
Amounts written-off	1,671	929
Released	1,356	1,016
Allowance at the end of the year	**(14,670)**	**(12,564)**

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The Executive Board believes that no further credit provision is required in excess of the allowance for doubtful debts already recognized.

6. Construction Contracts

(in TEUR)	2007	2006
Contract revenue recognized as Sales in the current period	2,224,624	1,778,173
Contract costs incurred and recognized profits (less recognized losses) to date	4,750,192	3,300,809
Advances received and progress billings	4,746,921	3,345,966
Amount of retentions	6,926	2,585

'The billings in excess of costs and earnings of projects under construction' represent primarily payments from customers for work not performed as yet, and fall entirely in the category 'not past due nor impaired'.

7. Other Receivables

(in TEUR)	2007	2006*
Receivables from associated companies	3,518	3,280
Financial instruments carried at fair value	18,029	11,265
Receivables from value-added tax	42,649	31,785
Receivables from prepaid income taxes	17,665	8,774
Receivables from other taxes and charges	5,690	1,995
Other	46,318	53,227
	133,869	**110,326**
thereof other current receivables	128,716	106,949
thereof other non-current receivables	5,153	3,377
	133,869	**110,326**

*** restated**

The Executive Board considers that the carrying amount of other receivables corresponds to their fair value.

8. Retained Earnings

Dividends

For 2007, a dividend of EUR 1.00 per outstanding share is proposed by the Executive Board. The dividend for 2006 of TEUR 38,690, which is equal to EUR 0.75 per share, was proposed by the Executive Board and was approved at the 100th Annual General Meeting of Shareholders on March 29, 2007. The dividend was paid to the shareholders on April 6, 2007.

On February 19, 2008, the Executive Board authorized the consolidated financial statements for the year ended December 31, 2007 according to IFRS. On February 16, 2007, the Executive Board authorized submission of the consolidated financial statements for the year ended December 31, 2006 according to IFRS to its Supervisory Board. The Supervisory Board is made up solely of members not employed within the Group and representatives of employees. The consolidated financial statements were presented to the Supervisory Board and subsequently to the General Meeting of Shareholders.

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.

Additional capital disclosures

Andritz is committed to a strong financial profile, characterized by a conservative capital structure that gives excellent financial flexibility.

As of December 31, 2007 and 2006, equity and total assets of the Company were as follows:

(in TEUR)	2007	2006*
Total equity	481,575	414,540
Equity ratio	19.2%	17.4%
Total assets	2,507,527	2,386,066

*** restated**

Andritz is not subject to any statutory capital requirements. Commitments exist to sell or otherwise issue common shares in connection with established share-based payment plans. In recent years, commitments from share-based payment have primarily been satisfied through buy-back of the Company's shares (see Note 10).

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. Two bonds were issued in the past to safeguard the financial stability, and also to build the fundament for further growth of the Andritz Group. The capital structure of the Group consists of debt, which includes the borrowings, of cash and cash equivalents and equity attributable to equity holders of the parent, comprising share capital, capital reserves and retained earnings.

The capital structure is reviewed on an ongoing basis. As a part of this review, the cost of capital and the risks associated with each class of capital are considered. Based on this, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The Group's overall strategy remains unchanged from 2006.

9. Provisions

2007

(in TEUR)	Balance as at 1 January 2007	Currency translation differences	Changes due to business acquisitions	Reclassi-fication	Use	Reversal	Addition	Balance as at 31 December 2007
Provisions for severance payments	75,043	(337)	0	0	5,313	310	10,847	79,930
Provisions for pensions	59,318	665	0	0	4,656	779	2,417	56,965
Other non-current provisions	47,641	(502)	0	(1,321)	2,429	6,760	10,690	47,319
Non-current provisions	**182,002**	**(174)**	**0**	**(1,321)**	**12,398**	**7,849**	**23,954**	**184,214**
Current provisions	**204,106**	**(1,831)**	**90**	**1,321**	**43,001**	**32,165**	**82,072**	**210,592**

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
Non-current provisions	**92,105**	**(919)**	**78,053**	**(3,590)**	**6,655**	**3,423**	**26,431**	**182,002**
Current provisions	**97,773**	**(2,443)**	**71,690**	**3,590**	**16,830**	**14,003**	**64,329**	**204,106**

*** restated**

Other non-current and current provisions consist primarily of order-related provisions (2007: TEUR 240,307 and 2006: TEUR 234,737) for warranties, contingencies and impending losses.

10. Employee Benefit Obligations

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 shows the changes of the benefit obligations for the years ended December 31, 2007 and 2006:

(in TEUR)	2007	2006*
Defined benefit obligation as at 1 January	**147,136**	**42,411**
Currency translation differences	(1,633)	(46)
Current service cost	4,178	2,027
Interest cost on obligations	6,495	3,352
Actuarial gains/losses	120	(4,824)
Benefits paid	(13,632)	(4,637)
Contributions by the plan participants	1,465	1,101
Past service cost	0	8
Effect of any curtailment or settlement	(779)	463
Business acquisitions	0	107,281
Defined benefit obligation as at 31 December	**143,350**	**147,136**
Fair value of plan assets	(86,385)	(87,818)
Accrued liability as at 31 December	**56,965**	**59,318**

*** restated**

Total pension obligations of TEUR 143,350 (2006: TEUR 147,136) include TEUR 90,857 (2006: TEUR 93,795) that are covered in part or in full by investments in funds (plan assets).

The following table shows the development of the fair value of the plan assets:

(in TEUR)	2007	2006*
Fair value of plan assets as at 1 January	**87,818**	**12,661**
Currency translation differences	(2,298)	(178)
Expected return on plan assets	4,080	1,654
Actuarial gains/losses	743	(3,017)
Contributions by the employer	3,553	2,184
Contributions by the plan participants	1,465	1,101
Benefits paid	(8,976)	(2,285)
Business acquisitions	0	75,698
Fair value of plan assets as at 31 December	**86,385**	**87,818**

*** restated**

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

(in TEUR)	2007	2006*
Equity instruments	27,284	24,592
Debt instruments	36,528	40,332
Property	12,972	13,380
Other assets	9,601	9,514
	86,385	**87,818**

*** restated**

Pension expense is comprised of the following:

(in TEUR)	2007	2006
Current service cost	4,178	2,027
Interest expense on obligations	6,495	3,352
Expected return on plan assets	(4,080)	(1,654)
Actuarial gains/losses recognized	(623)	(549)
Past service cost	0	8
Effect of any curtailment or settlement	(779)	463
	5,191	3,647
Payments to defined contribution plans	18,002	14,425
	23,193	**18,072**

Principal actuarial assumptions used to determine pension obligations as of December 31, 2007 and 2006 were as follows:

	2007		2006	
(in %)	from	to	from	to
Discount rate	2.00	8.00	2.00	5.75
Wage and salary increases	3.00	6.00	3.00	4.00
Retirement benefit increases	2.50	2.50	2.50	2.50
Expected return on plan assets	-0.15	7.00	2.00	7.00

The average expected return was assumed as 5.25% due to the composition of the plan assets and under consideration of past experience. In 2007, the actual return on plan assets was approximately 1.26% (2006: approximately 4.6%).

Positive experience adjustments on obligations amounted to TEUR 341 (positive experience adjustment 2006: TEUR 18), positive experience adjustments on assets amounted to TEUR 917 (negative experience adjustment 2006: TEUR 165).

The expected payments to the pension fund for defined benefits are TEUR 3,178 for the fiscal year 2008.

Severance payments

The following table shows the changes in the severance benefit obligations for the years ended December 31, 2007 and 2006:

(in TEUR)	2007	2006
Defined benefit obligation as at 1 January	**75,043**	**33,850**
Currency translation differences	(337)	12
Current service cost	4,280	2,308
Interest cost on obligations	3,190	2,314
Actuarial gains/losses	3,377	(29)
Benefits paid	(5,279)	(2,540)
Contributions by the plan participants	111	0
Effect of any curtailment or settlement	(310)	0
Business acquisitions	0	39,128
Defined benefit obligation as at 31 December	**80,075**	**75,043**
Fair value of plan assets	(145)	0
Accrued liability as at 31 December	**79,930**	**75,043**

Severance expense is comprised of the following:

(in TEUR)	2007	2006
Current service cost	4,280	2,308
Interest expense on obligations	3,190	2,314
Expected return on plan assets	(10)	0
Actuarial gains/losses recognized	3,387	(29)
Effect of any curtailment or settlement	(310)	0
	10,537	4,593
Payments to defined contribution plans	301	419
	10,838	**5,012**

Principal actuarial assumptions used to determine severance obligations were the same as used for pension obligations. →

Management share option plan

The 97th Annual General Meeting of Shareholders held on 30 March 2004 adopted a Share Option Program for Managers and Members of the Executive Board. The number of options granted to the different Managers varies, depending on the area of responsibility, between 6,000, 10,000 and 20,000 shares for Managers, to 40,000 for Executive Board Members and 50,000 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 the holder 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 Executive 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 97th 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 that 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 that 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 options granted in 2004 totaled 698,000. The exercise requirements regarding the share price increase and the earnings per share were fulfilled in 2006, so it was possible to exercise the options according to the other requirements of the program. The fair value of the options at the time of granting amounts to TEUR 1,220, whereas no expense incurred in 2007. 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 was the closing price of the Andritz share on 17 May 2004 and amounted to EUR 9.26. The exercise price of EUR 9.38 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%, 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 for granting the options were not used.

The 99th Annual General Meeting of Shareholders held on 29 March 2006 adopted another Share Option Program for Managers and Members of the Executive Board. The number of options granted to the different Managers varies depending on the area of responsibility, between 6,000, 10,000 and 20,000 shares for Managers, to 40,000 for Executive Board Members and 50,000 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 the holder 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 Executive 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 99th 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 that 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 20 consecutive trading days within the period from 1 May 2009 to 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 options granted in 2006 totaled 944,000. The fair value of the options at the time of granting amounts to TEUR 6,492, thereof TEUR 3,011 have been reported as proportionate expense in 2007. 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 32.44. The exercise price of EUR 31.67 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 at 2.5%, 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 2007 and 2006 were as follows:

	2007		2006	
	Number of options	**Average exercise price per option (in EUR)**	**Number of options**	**Average exercise price per option (in EUR)**
Total at the beginning of the year	**1,021,500**	**29.98**	**695,500**	**9.38**
Options granted	14,000	31.67	944,000	31.67
Options exercised	(62,500)	9.38	(618,000)	9.38
Options forfeited	(60,000)	31.67	0	0.00
Total at the end of the year	**913,000**	**31.30**	**1,021,500**	**29.98**
Exercisable at year-end	15,000	9.38	77,500	9.38

11. Statement of Liabilities

2007

(in TEUR)	Remaining term less than 1 month	Remaining term between 1 and 3 months	Remaining term between 4 and 12 months	Remaining term between 1 and 5 years	Remaining term over 5 years	Total
Bonds	0	0	99,995	192,268	0	292,263
Bank loans and other financial liabilities	16,731	1,847	11,353	25,160	3,644	58,735
Obligations under finance leases	343	114	342	551	0	1,350
	17,074	**1,961**	**111,690**	**217,979**	**3,644**	**352,348**

2006

(in TEUR)	Remaining term less than 1 month	Remaining term between 1 and 3 months	Remaining term between 4 and 12 months	Remaining term between 1 and 5 years	Remaining term over 5 years	Total
Bonds	0	0	0	100,000	196,358	296,358
Bank loans and other financial liabilities	10,557	12,368	1,975	19,590	2.236	46,726
Obligations under finance leases	26	148	425	778	0	1,377
	10,583	**12,516**	**2,400**	**120,368**	**198,594**	**344,461**

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

Property, plant, and equipment amounting to TEUR 16,197 and TEUR 15,111 as at 31 December 2007 and 2006, respectively, has been pledged as security for long-term debt.

There are no credit defaults in the Andritz Group; all of the financial liabilities are settled on the due date.

The Executive Board considers that the carrying amount of liabilities corresponds to their fair value.

12. Other Liabilities

(in TEUR)	2007	2006*
Payables to associated companies	1,345	891
Personnel-related costs	78,795	71,586
Outstanding invoices for order-related costs	160,805	139,007
Deferred income	5,563	5,485
Financial instruments carried at fair value	6,901	0
Liabilities from value-added tax	15,573	6,318
Liabilities from commissions	7,578	8,374
Other	98,135	103,252
	374,695	**334,913**
thereof other current liabilities	367,719	326,769
thereof other non-current liabilities	6,976	8,144
	374,695	**334,913**

*** restated**

The Executive Board considers that the carrying amount of other liabilities corresponds to their fair value.

G. NOTES TO THE CONSOLIDATED INCOME STATEMENT

13. Sales

(in TEUR)	2007	2006
Contract revenue recognized as Sales in the current period	2,224,624	1,778,173
Revenue recognized due to After-Sales service	781,117	609,011
Other	276,747	322,502
	3,282,488	**2,709,686**

14. Other Operating Income

(in TEUR)	2007	2006
Profit on disposal of intangible and tangible assets	1,681	527
Exchange rate gains	32,255	18,700
Rental income	2,572	2,107
Other	30,149	19,897
	66,657	**41,231**

15. Personnel Expenses

(in TEUR)	2007	2006
Wages	122,907	93,684
Salaries	409,165	318,691
Pension expenses	23,193	18,072
Severance expenses	10,838	5,012
Social security and payroll related duties	92,795	66,820
Other social payments	17,705	14,654
	676,603	**516,933**

16. Other Operating Expenses

(in TEUR)	2007	2006
Exchange rate losses	25,404	11,663
Sales expenses	192,379	164,981
Administrative expenses	36,309	29,567
Other	191,767	143,672
	445,859	**349,883**

17. Financial Results

(in TEUR)	2007	2006
Income/expenses from associated companies	887	1,244
Other interest and similar income	29,462	24,632
Interest and similar expenses	(25,092)	(19,342)
Interest result	4,370	5,290
Other income / expenses from financing activities	204	(448)
	5,461	**6,086**

18. Income Taxes

(in TEUR)	2007	2006
Current tax expense	(43,326)	(45,107)
Changes in deferred taxes charged to the income statement	(18,589)	535
	(61,915)	**(44,572)**

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

(in TEUR)	2007	2006
Deferred tax assets	58,969	21,845
Liabilities for deferred taxes	(80,093)	(45,036)
Balance as at 31 December, as previously stated	(21,124)	(23,191)
Deferred tax relating to the origination and reversal of temporary differences		
income statement charge	(18,589)	535
charged to equity	(2,909)	1,532
	(42,622)	**(21,124)**
thereof		
Deferred tax assets	56,982	58,969
Liabilities for deferred taxes	(99,604)	(80,093)

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

(in TEUR)	2007	2006
Earnings before taxes (EBT)	198,022	165,925
Tax at the applicable tax rate (25% in 2007 and 25% in 2006)	(49,506)	(41,481)
Non-deductable amortization of goodwill	(859)	0
Tax effect of		
adjustment of using new tax rates	1,237	509
other changes	(12,787)	(3,600)
	(61,915)	**(44,572)**
Current tax expense	(43,326)	(45,107)
Changes in deferred taxes charged to the income statement	**(18,589)**	**535**

The other changes refer mainly to changes of valuation allowances of deferred tax assets. →

Deferred tax assets and liabilities for deferred taxes as at December 31, 2007 and 2006 are the result of the following temporary valuation differences between book values in the IFRS consolidated financial statements and the relevant tax bases:

	2007 Deferred tax		2006 Deferred tax	
(in TEUR)	Assets	Liabilities	Assets	Liabilities
Intangible assets	3,240	(12,256)	1,805	(12,226)
Property, plant and equipment	2,947	(22,351)	2,945	(11,760)
Financial assets	7	(7,340)	7	(10,108)
Inventories	318,260	(4,621)	268,518	(2,065)
Receivables	9,793	(72,483)	2,733	(47,223)
Marketable securities and shares	0	(281)	0	(182)
Other assets	121	(2)	190	(93)
	334,368	**(119,334)**	**276,198**	**(83,657)**
Provisions	62,332	(28,496)	56,317	(36,198)
Liabilities	20,067	(323,023)	22,466	(275,355)
Deferred income	129	0	27	(13)
	82,528	**(351,519)**	**78,810**	**(311,566)**
Tax loss carry-forwards	63,073	0	60,264	0
Deferred tax assets/liabilities	**479,969**	**(470,853)**	**415,272**	**(395,223)**
Valuation allowance for deferred tax assets	(51,738)	0	(41,173)	0
Offset within legal tax units and jurisdiction	(371,249)	371,249	(315,130)	315,130
Net deferred tax assets and liabilities	**56,982**	**(99,604)**	**58,969**	**(80,093)**

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. The Executive Board considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Executive Board believes it is probable that the Company will realize the benefits of the recognized deductible differences and operating loss carry-forwards.

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 earnings 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 Areas

The Andritz Group conducts its business activities through the following Business 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.

2007

Business Area data

(in TEUR)	P+P	HP	WB	EP	FB	Transition	Total
Sales	1,462,206	910,043	408,001	364,432	137,806	0	3,282,488
Segment result before interest, taxes, depreciation and amortization (EBITDA)	101,050	63,609	32,140	30,300	15,217	0	242,316
Total assets	706,595	753,301	159,316	232,004	76,595	579,716	2,507,527
Total liabilities	609,393	617,318	192,681	145,077	37,455	424,028	2,025,952
Capital expenditure	21,818	25,415	3,210	4,851	1,739	0	57,033
Depreciation, amortization, and impairment of intangible assets and property, plant, and equipment*	17,716	19,905	2,491	5,005	1,867	0	46.984
Share of net profit/loss of associates	367	0	0	439	81	0	887
Shares in associated companies	2,513	2,254	0	1,488	570	0	6,825

Geographical segment data

(in TEUR)	Europe	North America	Asia	Rest of the world and consolidation	Total
External Sales	1,400,020	522,123	841,742	518,603	3,282,488
Total assets	3,385,135	539,209	264,748	(1,681,565)	2,507,527
Capital expenditure	39,211	3,356	12,063	2,403	57,033

2006**

Business Area 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 interest, taxes, depreciation and amortization (EBITDA)	89,642	33,276	32,824	25,568	12,913	0	194,223
Total assets	642,747	571,186	142,533	228,988	70,986	729,626	2,386,066
Total liabilities	649,677	544,550	155,756	161,987	34,438	425,118	1,971,526
Capital expenditure	21,658	13,498	2,346	6,510	1,656	0	45,668
Depreciation, amortization, and impairment of intangible assets and property, plant, and equipment*	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	(1,549,756)	2,386,066
Capital expenditure	32,365	5,054	7,159	1,090	45,668

*** Depreciation, amortization, and impairment of intangible assets and property, plant, and equipment includes TEUR 5,967 (2006: 2,895), which refers to amortization of identifiable intangible assets acquired in a business combination and recognized separately from goodwill.**

**** restated**

I. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

Cash flows from acquisition of subsidiaries*

(in TEUR)	Business Area		Total	Total
	P+P	HP	2007	2006**
Cash and cash equivalents	(214)	(5,241)	(5,455)	(167,851)
Marketable securities	(807)	0	(807)	(708)
Receivables and other current assets	(623)	(762)	(1,385)	(328,203)
Inventories	(179)	(9,140)	(9,319)	(80,252)
Intangible assets	(2,400)	(166)	(2,566)	(45,252)
Property, plant, and equipment	(320)	(13,700)	(14,020)	(90,037)
Financial assets	0	0	0	(16,632)
Accounts payable and accrued expenses	1,856	9,385	11,241	580,559
Financial debt	0	1,653	1,653	20,371
Net assets/liabilities acquired	(2,687)	(17,971)	(20,658)	(128,005)
Cash and cash equivalents	214	5,241	5,455	167,851
Goodwill	(3,200)	(5,966)	(9,166)	(105,705)
Changes in minority interests	0	0	0	0
Changes in equity attributable to shareholders of the parent company	0	0	0	(4,144)
Purchase price not yet paid	(12,166)	0	(12,166)	12,166
Net cash flow	**(17,839)**	**(18,696)**	**(36,535)**	**(57,837)**

*** converted by using exchange rates as per dates of transaction**
**** restated**

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 ensure the identification of major risks at an early stage and to take counter-measures, if necessary.

The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Executive Board, which provide written principles on financial risks. Moreover rules are defined for the use of derivative and non-derivative financial transactions as well as surplus cash. Compliance with policies and exposure limits is reviewed by the internal auditor on a continuous basis. The Group does not own or trade financial instruments for speculative purposes.

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 a political risk are typically 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 enters into fixed forward foreign exchange contracts to manage 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 or firm commitments and highly probable purchases and sales. The currency risks of the Group occur due to the fact that the Group's operations, production sites 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.

The Group manages liquidity risks especially by holding adequate reserves, by issuing bonds, by receiving substantial customer advances and by constantly monitoring the predicted and actual cash flows as well as reconciling maturity date profiles of financial assets and liabilities.

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 across diverse industries and geographical areas.

Credit risk associated with the investment of liquid funds and securities is limited by the fact that the Group works only with banks which can demonstrate sound creditworthiness.

For certain 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 Management believes that no other credit risk will occur.

Without considering risk minimization strategies as described above, the carrying amounts of financial assets recorded in the financial statements, grossed up for any allowances for losses, represent the Group's maximum exposure to credit risk of the corresponding categories.

(in TEUR)	2007	2006*
Held for trading	19,762	15,772
Available for sale	108,789	49,975
Loans and receivables	1,042,359	1,137,623
	1,170,910	**1,203,370**

*** restated**

The trade receivables in the category 'loans and receivables' are impaired by TEUR 14,670 (balance 2006: TEUR 12,564). In all other categories there was no need for an impairment.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. The three largest customers contribute 15% of all incoming orders in various strategic business areas. As there is no significant concentration of credit risk, the Executive Board believes no further credit provision is required in excess of the allowance for doubtful debts already recognized.

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 arising 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. Therefore, there is the risk of a changing interest rate concerning the cash flows but the fair value of the bond is hedged and hedge accounting in the sense of IAS 39 was applied.

In June 2006, the Company issued another bond for a nominal value of MEUR 200 with a repayment period of 7 years and a nominal interest rate of 4.5% p.a. For this bond interest swaps have been used to hedge the risk arising 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 the 1 month's Euribor. Therefore, there is the risk of a changing interest rate concerning the cash flows but the fair value of the bond is hedged and hedge accounting in the sense of IAS 39 was applied. →

The contractual basic parameters of the swaps are similar to the ones of the bonds and therefore the hedges were 100% effective in hedging the fair value exposure to interest rate movements during the period. By applying the rules for hedge accounting, the gain or loss from the swaps to fair value was recognized through profit or loss. The gain or loss attributable to the changes of the hedged interest rate risk caused an adjustment of the bonds' carrying amounts and was also recognized through profit or loss. Therefore, the gains and losses resulting from the changes in fair value of the swaps and the bonds offset each other.

The details to the change of the fair value of the swaps designated as fair value hedge are as follows:

(in TEUR)	2007	2006
Fair value swap end of previous period	(2,647)	4,024
Fair value swap end of current period	(7,737)	(2,647)
Gain/loss recognized through profit or loss	**(5,090)**	**(6,671)**

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

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

(in %)	2007	2006
Cash on current accounts	2.1	1.9
Short-term deposits	4.6	3.4
Securities, short-term	4.6	7.0
Securities, long-term	3.1	2.8
Overdraft on current accounts	5.0	5.2
Short-term loans	10.7	10.7
Long-term loans	3.6	5.3
Bond	4.9	4.3

e. Sensitivity analyses

The Group's activities expose it primarily to the financial risks of changes in foreign currency, changes in fair value and changes in interest rates. The Group enters into financial derivatives to manage its exposure to foreign currency risk and the risk of changes in fair values. These market risk exposures are measured using sensitivity analyses.

Foreign currency sensitivity

Sensitivity analyses provide an approximate quantification of the exposure in the event that certain specified parameters were to be met under a specific set of assumptions. The Group is mainly exposed to the U.S. dollar.

The following explanations detail the Group's sensitivity to an increase and decrease in USD-Dollar against the Euro. The change represents the amount applied on internal reporting of foreign currency risk and represents the Executive Board's assessment of the possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a change in foreign currency rates.

With an increase of the U.S. dollar against the Euro of 10% Net income for the year 2007 would be decreased by TEUR 5,171 compared to the Net income reported now (2006: decrease of Net income for the year 2006 of TEUR 495). With a 10% decrease of the U.S. dollar against the Euro Net income for the year 2007 would be increased by TEUR 2,650 (2006: increase of Net income by TEUR 39). These changes are mostly due to the fair value adjustment of forward contracts for U.S. dollar according to new exchange rates.

Interest rate sensitivity

The sensitivity analyses have been determined based on the exposure to interest rates of the bonds. There is no risk of a changing interest rate concerning the cash flows for the company as the issuer of the fixed-interest bearing bonds, although there is the risk of changes in the fair value of the bonds. The Company entered into swaps to hedge against this risk of changes in the fair value, so that on a net basis, the Group has the liability to pay a variable interest rate based on 1 month's Euribor.

A 100 basis point change in interest rate is used when reporting interest rate risk internally to key management personnel and represents the Executive Board's assessment of the possible change in interest rates.

If interest rates had been 100 basis points higher and all other variables were held constant, this would have caused a change of the fair value of the swaps in the amount of TEUR -9,398 (2006: TEUR -11,562). This change would be offset by a basis adjustment of the bonds in the same amount.

If interest rates had been 100 basis points lower and all other variables were held constant, this would have caused a change of the fair value of the swaps in the amount of TEUR 9,375 (2006: TEUR 12,428). This change would be offset by a basis adjustment of the bonds in the same amount.

f. Fair Value of Financial Instruments

The following table compares the carrying values of financial instruments with their fair values:

2007

(in TEUR)	At amortized costs	Fair value not through profit or loss	Fair value through profit or loss	Carrying value 31.12.2007	Market value 31.12.2007
ASSETS					
Investments					
Available for sale	6,840	62	0	6,902	6,902
Loans and receivables	26,095	0	0	26,095	26,095
Receivables and other assets					
Loans and receivables	519,338	0	0	519,338	519,338
Held for trading	0	0	19,762	19,762	19,762
Marketable securities					
Available for sale	101,041	846	0	101,887	101,887
Cash and cash equivalents					
Loans and receivables	496,926	0	0	496,926	496,926
	1,150,240	**908**	**19,762**	**1,170,910**	**1,170,910**
LIABILITIES					
Financial liabilities					
Measured at amortized costs	350,998	0	0	350,998	350,998
Not allocated to any IAS 39 valuation category	1,350	0	0	1,350	1,350
Trade accounts payable					
Measured at amortized costs	314,028	0	0	314,028	314,028
Other liabilities					
Held for trading	0	0	19,897	19,897	19,897
Measured at amortized costs	354,798	0	0	354,798	354,798
	1,021,174	**0**	**19,897**	**1,041,071**	**1,041,071**

2006*

(in TEUR)	At amortized costs	Fair value not through profit or loss	Fair value through profit or loss	Carrying value 31.12.2006	Market value 31.12.2006
ASSETS					
Investments					
Available for sale	10,437	(54)	0	10,383	10,383
Loans and receivables	22,355	0	0	22,355	22,355
Receivables and other assets					
Loans and receivables	444,677	0	0	444,677	444,677
Held for trading	0	0	15,772	15,772	15,772
Marketable securities					
Available for sale	38,668	924	0	39,592	39,592
Cash and cash equivalents					
Loans and receivables	670,591	0	0	670,591	670,591
	1,186,728	**870**	**15,772**	**1,203,370**	**1,203,370**
LIABILITIES					
Financial liabilities					
Measured at amortized costs	343,084	0	0	343,084	343,084
Not allocated to any IAS 39 valuation category	1,377	0	0	1,377	1,377
Trade accounts payable					
Measured at amortized costs	340,682	0	0	340,682	340,682
Other liabilities					
Held for trading	0	0	16,217	16,217	16,217
Measured at amortized costs	318,696	0	0	318,696	318,696
	1,003,839	**0**	**16,217**	**1,020,056**	**1,020,056**

*** restated**

→

The following table shows the transition from the carrying values of financial instruments with their fair values:

2007

(in TEUR)	Amortized costs	Fair value not through profit or loss	Fair value through profit or loss	Carrying value 31.12.2007	Market value 31.12.2007
ASSETS					
Held for trading					
Derivatives	0	0	18,029	18,029	18,029
Embedded Derivatives	0	0	1,733	1,733	1,733
Available for sale					
Non-current securities	6,840	62	0	6,902	6,902
Marketable securities	101,041	846	0	101,887	101,887
Loans and receivables					
Loans granted	14,611	0	0	14,611	14,611
Investments in other companies	11,484	0	0	11,484	11,484
Non-current receivables and other non-current assets	10,221	0	0	10,221	10,221
Trade accounts receivable	400,163	0	0	400,163	400,163
Other receivables and assets – current	108,954	0	0	108,954	108,954
Cash and cash equivalents	496,926	0	0	496,926	496,926
	1,150,240	**908**	**19,762**	**1,170,910**	**1,170,910**
LIABILITIES					
Held for trading					
Derivatives	0	0	14,638	14,638	14,638
Embedded Derivatives	0	0	5,259	5,259	5,259
Financial liabilities measured at amortized costs					
Bonds	292,263	0	0	292,263	292,263
Bank loans and other financial liabilities	58,735	0	0	58,735	58,735
Trade accounts payable	314,028	0	0	314,028	314,028
Other liabilities	354,798	0	0	354,798	354,798
Other liabilities, not allocated to any IAS 39 valuation category					
Obligations under finance leases	1,350	0	0	1,350	1,350
	1,021,174	**0**	**19,897**	**1,041,071**	**1,041,071**

2006*

(in TEUR)	Amortized costs	Fair value not through profit or loss	Fair value through profit or loss	Carrying value 31.12.2006	Market value 31.12.2006
ASSETS					
Held for trading					
Derivatives	0	0	15,039	15,039	15,039
Embedded Derivatives	0	0	733	733	733
Available for sale					
Non-current securities	10,437	(54)	0	10,383	10,383
Marketable securities	38,668	924	0	39,592	39,592
Loans and receivables					
Loans granted	14,003	0	0	14,003	14,003
Investments in other companies	8,352	0	0	8,352	8,352
Non-current receivables and other non-current assets	6,132	0	0	6,132	6,132
Trade accounts receivable	347,368	0	0	347,368	347,368
Other receivables and assets – current	91,177	0	0	91,177	91,177
Cash and cash equivalents	670,591	0	0	670,591	670,591
	1,186,728	**870**	**15,772**	**1,203,370**	**1,203,370**
LIABILITIES					
Held for trading					
Derivatives	0	0	6,421	6,421	6,421
Embedded Derivatives	0	0	9,796	9,796	9,796
Financial liabilities measured at amortized costs					
Bonds	296,358	0	0	296,358	296,358
Bank loans and other financial liabilities	46,726	0	0	46,726	46,726
Trade accounts payable	340,682	0	0	340,682	340,682
Other liabilities	318,696	0	0	318,696	318,696
Other liabilities, not allocated to any IAS 39 valuation category					
Obligations under finance leases	1,377	0	0	1,377	1,377
	1,003,839	**0**	**16,217**	**1,020,056**	**1,020,056**

*** restated** →

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 with banks were as follows:

(in TEUR)	2007	2006
Forward contracts with positive fair values	18,029	15,039
Forward contracts with negative fair values	(6,901)	(3,774)
	11,128	**11,265**

The remaining terms of the forward foreign exchange contracts are as follows:

(in TEUR)	not exceeding 1 year	more than 1 year	Total 2007	Total 2006
US-Dollars	8,023	(927)	7,096	5,223
Swiss Francs	2,701	376	3,077	1,707
Singapore Dollars	1,641	0	1,641	2,826
Euros	133	923	1,056	712
Other currencies	(402)	(1,340)	(1,742)	797
	12,096	**(968)**	**11,128**	**11,265**

The fair value of the interest swaps presenting a total negative fair value as of end of 2007 was TEUR 7,737 (TEUR 2,647 as of end of 2006 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 the 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 the 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 risks of changes in fair value have been hedged by interest rate swaps. 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)	Unrealized gain (loss) on hedging activities	Unrealized gain (loss) on securities	Unrealized gain (loss) total IAS 39 reserve
Balance as at January 1, 2006	**(3,834)**	**662**	**(3,172)**
Gains and losses from changes in fair value	(104)	(150)	(254)
Deferred income taxes thereon	26	37	63
Transfers to income statement	5,557	280	5,837
Deferred income taxes thereon	(1,723)	(78)	(1,801)
Balance as at December 31, 2006	**(78)**	**751**	**673**
Gains and losses from changes in fair value	0	(285)	(285)
Deferred income taxes thereon	0	50	50
Transfers to income statement	104	169	273
Deferred income taxes thereon	(26)	(41)	(67)
Balance as at December 31, 2007	**0**	**644**	**644**

The net gains and losses for each category of financial instrument are as follows:

2007

(in TEUR)	Held for trading	Held for trading	Available for sale
	Derivatives	embedded Derivatives	Securities
Changes in fair values recognized in profit or loss	(5,227)	5,537	(169)
Changes in fair values recognized in equity	0	0	(285)
Recycling out of equity	0	0	169
Net gains/(losses)	**(5,227)**	**5,537**	**(285)**

2006

(in TEUR)	Held for trading	Held for trading	Available for sale
	Derivatives	embedded Derivatives	Securities
Changes in fair values recognized in profit or loss	4,594	(9,063)	(280)
Changes in fair values recognized in equity	0	0	(150)
Recycling out of equity	6,413	0	280
Net gains/(losses)	**11,007**	**(9,063)**	**(150)**

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. Rental expense amounted to TEUR 30,978 in 2007 and TEUR 20,444 in 2006.

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

(in TEUR)	2007	2006*
Next year	13,611	7,751
1 year to 5 years	21,807	21,592
After 5 years	6,896	10,764
	42,314	**40,107**

*** restated**

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, 2007, these commitments amounted to TEUR 14,443 (2006: to TEUR 2,661).

M. CONTINGENT LIABILITIES

Various legal actions and claims are pending or may be asserted in the future against Group companies from claims incidental to the ordinary course of business. These most typically consist of project-related claims and disputes. Although the resolution of these matters within established reserves can not be guaranteed the Management believes, subject to the following paragraph, 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 2007, Andritz Inc., as subsidiary of the Company, was one of many defendants in a total of approximately 26 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 608 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 90 asbestos cases and about 22,956 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 has a material adverse effect on the Company's business, results of operations and financial condition. The Group believes it has 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. 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 Executive Board

A provision of TEUR 4,318 in 2007 (TEUR 4,292 in 2006) was recorded for pensions of former Members of the Executive Board and their dependants; the current year expense for these pensions amounted to TEUR 343 for 2007 (TEUR 169 for 2006).

The following expenses have been recognized for the Executive Board:

(in TEUR)	2007	2006
Short-term benefits	9,383	9,490
Post-employment benefits	1,903	1,312
Share-based expenses	642	498
	11,928	**11,300**

The Members of the Supervisory Board received remunerations in the amount of TEUR 111 (2006: TEUR 41).

O. SUBSEQUENT EVENTS

On February 18, 2008 Andritz successfully concluded the issue of a public corporate bond with a volume of MEUR 150 and a tenor of seven years. At a denomination of TEUR 50 the Andritz corporate bond is endowed with an annual fixed coupon rate of 5.25%.

P. LIST OF CONSOLIDATED SUBSIDIARIES

Material Affiliated Companies	Headquarters	Ownership Interest direct	Ownership Interest 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 Separation Inc.	Arlington/Texas (USA)		100%
Andritz S.A.S.	Vélizy/France	100%	
Andritz Selas S.A.S.	Gennevilliers/France		100%
Andritz Ingeniería S.A.	Madrid/Spain	100%	
Andritz Oy	Helsinki/Finland	100%	
Savonlinna Works Oy	Savonlinna/Finland		100%
VA TECH HYDRO Canada Inc.	Stoney Creek/Canada	100%	
Andritz Ltd./Ltée.	Lachine/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/Brasil	100%	
Andritz KK	Tokyo/Japan	100%	
VA TECH HYDRO GmbH	Vienna/Austria	100%	
Andritz Deutschland Beteiligungs GmbH	Ravensburg/Germany	49%	51%
Andritz-Küsters GmbH	Krefeld/Germany		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 Fliessbettsysteme GmbH	Ravensburg/Germany		100%
Andritz Kaiser GmbH	Bretten-Gölshausen/Germany		100%
Lenser Filtration GmbH	Senden/Germany		100%
VA TECH ESCHER WYSS GmbH	Ravensburg/Germany		100%
VA TECH HYDRO India Pvt. Ltd.	Bhopal/India		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 19, 2008

Wolfgang Leitner   Franz Hofmann   Karl Hornhofer   Humbert Köfler   Friedrich Papst

FINANCIAL GLOSSARY

ATX
Austrian Traded Index
Price index calculated by the Vienna Stock Exchange, containing the most actively traded shares on the Vienna Stock Exchange. The ATX comprises approximately 20 shares, weighted in the index according to market capitalization and free float.

ATX Prime
Price index calculated by the Vienna Stock Exchange and containing all the shares of the ATX Prime Market segment.

Authorized capital
Authorization by resolution of the Shareholders' Meeting allowing the Managing Board to increase the share capital by a maximum of 50% within five years by issuing new shares.

Chart
Graph showing the daily, weekly, or monthly prices for a particular share for a certain period.

Continuous trading
Continuous handling of all orders where price and quantity requested match up. Transactions can be concluded at any time during the opening hours of the Stock Exchange.

Corporate Governance Code
The Corporate Governance Code represents a set of rules for the responsible management and control of a company.

Dividend
That part of a company's profits paid out to the shareholders. The amount of the dividend is proposed by the Managing Board of a company and approved in a resolution by the Shareholders' Meeting.

EBIT(D)A
Earnings before Interest, Taxes (Depreciation), and Amortization of goodwill
This earnings measure is of particular interest in cases where companies have large amounts of fixed assets which are subject to heavy depreciation charges or in the case where a company has a large amount of acquired intangible assets on its books and is thus subject to large amortization. EBITDA is a good measure of comparing companies within industries.

EBIT
Earnings before Interest and Taxes
The EBIT is part of the profit and loss accounts; also often called 'operating profit.'

Ex-dividend
The price of the share is lowered by the amount of the dividend paid a few days before the day a dividend is paid out.

Free float
Portion of a company's shares that is held by a large number of private and institutional investors.

IFRS
International Financial Reporting Standards
IFRS are international accounting standards drawn up by the International Accounting Standards Board (IASB). Complying with IFRS should enable investors and other relevant stakeholders to better compare annual accounts presented by companies from different countries.

IPO
Initial Public Offering
Admission of a company to list its shares on the Stock Exchange by selling company shares to the public.

Investor Relations
Interface between the company and the financial community. An Investor Relations department should regularly provide transparent, comprehensive, and up-to-date information on developments within the company to shareholders, financial analysts, and investors.

ISIN
International Securities Identification Number
Individual identification number of a security, enabling computerized international registration of a security.

Market capitalization
Market price of a listed company. This is calculated by multiplying the current share price by the number of company shares.

MEUR
Million Euros

Net liquidity
Cash and cash equivalents minus interest-bearing financial liabilities.

No-par value share
Share with no-par value, referring to a certain interest in the company without stating a fixed amount.

Par value
Face value of a security. This is the amount the shareholder has contributed to the nominal share capital of the company. The par value gives no indication of the actual value of the share.

Prime Market
Market segment of the Vienna Stock Exchange which contains stocks that are admitted to listing on the Official Market or Semi-Official Market and meet special additional listing criteria.

Road show
The management of a listed company presents the company's activities, strategies, and long-term prospects to national and international institutional investors and retail shareholders.

Share
Certificate that represents a certain stake in the nominal capital of a stock company.

Shareholders' Meeting
Body of a stock company which usually meets at least once a year and takes resolutions on important company matters according to company law.

Share capital increase
Increase in the nominal capital of a stock company. Equity capital is paid into the company.

SPO
Secondary Public Offering
Selling of further shares of a company that is already publicly listed.

Stock Option Program
A company grants options to a defined group of executives for the purchase of shares of the company, which may be exercised at an agreed price after agreed performance criteria are met.

Volatility
Measure of the average fluctuation of a share price over a certain period. In statistics, the volatility is equal to the standard deviation.

WBI
Wiener Börse Index
(Vienna Stock Exchange Index)
The WBI contains all shares listed on the Official Market and the Semi-Official Market. The WBI, as overall index, reflects the development of the Austrian stock market as a whole.

Disclaimer:

This Annual Financial Report contains assumptions and forecasts which were based on the information available up to the copy deadline on 19 February 2008. If the premises for these assumptions and forecasts do not occur, or risks indicated in the Status Report and in the chapter 'Corporate Risks' of the Andritz Annual Report 2007 do arise, actual results may vary from the forecasts made in this Annual Financial Report. Although the greatest caution was exercised in preparing data, all information related to the future is provided without guarantee.

The online version of this Annual Financial Report as well as the online version of the Annual Report 2007 are available on the Andritz website (www.andritz.com) or directly on **http://reports.andritz.com/2007/**

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Editor: Dr. Michael Buchbauer
Design and concept: section.d
Printed by: Druckerei Bösmüller


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